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THE PRESIDENT'S BUDGET PROPOSALS FOR FISCAL YEAR 1994

Y 4. B 85/3:103-8

The President's Budget Proposals fo...

HEARINGS

BEFORE THE

COMMITTEE ON THE BUDGET

HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

HEARINGS HELD IN WASHINGTON, DC, MARCH 2, 3, AND 4, 1993

Serial No. 103-8

Printed for the use of the Committee on the Budget



MAY 29 1993

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THE PRESIDENT'S BUDGET PROPOSALS FOR FISCAL YEAR 1994

TUESDAY, MARCH 2, 1993

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
Washington, DC.

The committee met, pursuant to call, at 2 p.m., Room 210, Cannon House Office Building, Hon. Martin Olav Sabo, Chairman, presiding.

Members present: Representatives Sabo, Kildee, Stenholm, Slaughter, Parker, Coyne, Gordon, Price, Mink, Orton, Kasich, Shays, Snowe, Allard, Miller, Smith of Michigan, and Inglis.

Chairman SABO. Good afternoon. We are honored to have before us Secretary of Education Richard Riley, here to discuss parts of the Clinton proposal that will be administered by his Department. We welcome you, Mr. Secretary.

President Clinton's proposals in this area include the job training program, a National Service program, and expanding Head Start. All of these proposals can make major improvements in many lives.

As we have reviewed these and other proposals, we must remain focused on the overall goal, to improve the economy and raise the standard of living of all Americans. To accomplish this, we must make fundamental shifts in this Nation's spending priorities.

Secretary Riley, as a long-time supporter of Head Start and similar initiatives, I look forward to hearing your ideas on how Federal funds can more effectively educate more children and adults. We welcome you and look forward to hearing from you, and we congratulate you on your new appointment after a long and distinguished career. It is good to see you again.

STATEMENT OF HON. RICHARD W. RILEY, SECRETARY OF EDUCATION, ACCOMPANIED BY SALLY H. CHRISTENSEN, ACTING ASSISTANT SECRETARY FOR MANAGEMENT AND BUDGET, AND THOMAS P. SKELLY, BUDGET SYSTEMS DIVISION, BUDGET SERVICE, OFFICE OF MANAGEMENT AND BUDGET

Secretary RILEY. Thank you so much, Mr. Chairman.

It is a pleasure for me to have with me, from the Department of Education, Sally Christensen, who is the Acting Assistant Secretary for Management and Budget, and Tom Skelly, Budget Systems Division, Budget Service, Office of Management and Budget. I appreciate them joining with me.

It is a pleasure, Mr. Chairman and members of the committee, for me to have this opportunity of being with you. It is a pleasure to discuss with you the role of education in President Clinton's economic plan to move our Nation toward a future of prosperity that is both visionary and realistic.

The President's plan for our Nation's economic recovery consists of three parts: An immediate stimulus program to boost the economy in the short run by creating new jobs, an investment package to ensure long-term competitiveness and prosperity, and a reduction of the Federal deficit to alleviate the drain on national savings and to encourage private investments. Education, our investment in human capital, is a prime ingredient of this plan for the Nation's future.

Last week, I testified before the House Appropriations Committee in support of the President's request for a 1993 economic stimulus supplemental appropriation of almost \$2.8 billion for three activities in the Department of Education. Five hundred million dollars of the proposed supplemental is for Chapter 1 programs this summer that will employ up to 83,000 teachers and other staff to provide remedial reading, mathematics, and other services to as many as 750,000 disadvantaged elementary and secondary students; and \$235 million is for additional Chapter 1 funding to ease the transition for districts that will lose funds in fiscal year 1993—and could lose services to 250,000 students and up to 6,000 teaching jobs—as a result of using the 1990 census data to allocate funds.

Finally, \$2 billion is to pay off the entire estimated Pell grant shortfall from prior years and to ensure that no student's award will be reduced for the upcoming 1993-1994 school year. The shortfall represented a large, inherited deficit that would have prevented us from making needed investments in education while living within our budget. The supplemental will allow us to issue a Pell payment schedule immediately, so that students who are now making plans for next fall will be able to find out how much grant aid will be available.

Even after we have dealt with the immediate economic recovery, our real challenge will be to make those long-term investments in both physical and human capital that will ensure the Nation's future prosperity. I would like to share with you some of our plans for education's major role in the President's investment program.

First, we will offer a national education reform program designed to help make systemic reform a reality in all of America's schools. Comprehensive, systemic reform includes setting goals and standards, improving curricula and instruction, developing better assessments to tell us how well students are meeting high standards, encouraging parental and family support, restructuring schools, and giving students real opportunities to move from school to work or to college.

Interest in systemic reform is growing in States and local school districts. It is not easy, but it offers the best hope, I think, for reaching our national education goals and helping all students reach challenging standards. Systemic reform also captures an important theme of the Clinton Presidency: The coupling of responsibility and opportunity. Systemic reform will not only hold students responsible for reaching high standards of academic achievement,

it will also help assure that all students are given real opportunities to meet those standards.

A number of States and communities are already moving toward systemic reform, and our education reform legislation will help speed up their progress. This legislation, which we plan to call the "Goals 2000: Educate America Act" will: one, make the national education goals a matter of formal national policy; two, set up a distinguished council to certify that the academic standards—which spell out what students should know and be able to do—and the voluntary assessments—which tell us if students are meeting the standards—are of the highest quality; three, establish an Opportunity to Learn Commission to develop standards for teaching and curricula that are tied to academic standards; and, four, accelerate reform by offering Federal grants to help States, school districts and schools design and implement comprehensive strategies to assist all students to achieve world-class standards.

This systemic reform program will provide the framework for the upcoming reauthorization of elementary and secondary education programs in the Elementary and Secondary Education Act (ESEA). Through the reauthorization, we will identify opportunities to link the Department's major elementary and secondary programs more closely to the national education goals and also to the State and local reform strategies supported by our systemic reform legislation. Using a significant portion of the Department's \$9 billion in elementary and secondary education funding to leverage systemic reform efforts could have a dramatic effect on the quality of American education, particularly for students who may be disadvantaged.

The reauthorization of the research and data collection activities of our Office of Educational Research and Improvement, OERI, on which we are also working, will contribute to systemic reform as well, by putting in place mechanisms for determining what works best in teaching and learning and for helping teachers and school leaders around the country to use these best practices.

In addition to education reform, we will propose a new program to support local efforts to help make schools safe and free of violence, particularly in those areas experiencing the highest incidence of violence in the schools.

Our major initiative in postsecondary education will be the phase-in of a program of National Service and flexible payback options for student loans. We are going to want to provide additional ways to help increase access to higher education while encouraging young Americans to serve their country.

We also want to explore ways to streamline and to cut costs in the Department's loan programs. The current system of guaranteed student loans is too complicated and too expensive. We are looking at an array of options for structuring the system to achieve greater cost effectiveness and ensure that more of the taxpayers' hard-earned money reaches its intended beneficiaries. Full direct lending is one such option. There are several others as well. There are also complex and delicate issues raised by the transition from our current system to something better. The President will resolve these issues in a way that best serves students and best serves taxpayers.

Under President Clinton's National Service proposal, some students would be able to pay for college by working in community service jobs before, during, and after college. Most importantly, the President's National Service initiative will help create a new community spirit among young people and in the Nation as a whole.

Finally, I want to point out that much of our Federal investment in education will not show up in this Department's budget. For example, President Clinton's emphasis on lifelong learning means that we will be paying more attention to getting children ready for school. The President's budget does this by fully funding WIC-the Women, Infants and Children Supplemental Food program; by ensuring that immunization is available to every American child; and by increasing support for Head Start. I would like to urge, Mr. Chairman and members of the committee, that you endorse the President's proposal to fund these three initiatives.

We view Head Start as an essential program for all of our future efforts in education reform. Enabling all eligible children to participate in Head Start is the single most important step that Congress can take to achieve the Nation's first national educational goal, that of ensuring that all children enter school ready to learn.

Research by the Department of Education has found that Head Start is more likely than other childhood programs to offer the kind of comprehensive services and parent involvement that we know are key ingredients to a child's success. The administration's Head Start initiative provides the investments necessary both to expand the program and strengthen further its quality so that Head Start works in every community across the Nation. We will work closely, Mr. Chairman, with the Department of Health and Human Services to ensure that our preschool programs complement each other and provide maximum benefit to children and to their parents.

Lifelong learning also involves a new focus on apprenticeship and training opportunities. We will work closely with the Department of Labor to design an education and training system that will improve the transition from school to work and offer displaced workers the training they need to begin new careers.

Just last week I and my staff met several times with Secretary Reich and his staff. We anticipate sharing roughly an equal amount of the funding for the proposed new initiative on school-to-work transition, sometimes referred to as youth apprenticeship.

The President plans to submit his 1994 budget to Congress on April 5th, and we are now developing the details of our budget for the Department of Education. However, I can give you some idea of the totals we will be proposing to you.

For 1994, the Department's total discretionary budget will rise from \$23.2 billion to \$24.4 billion, a 4.9 percent increase. Mandatory spending will decline nearly \$900 million, from \$7.2 billion to \$6.3 billion, primarily as a result of declining interest costs in the student loan programs. Even more significantly, by 1997, the discretionary portion of our budget will reach almost \$28 billion or 19.5 percent above the 1993 level, over that 4-year period.

These increases are net of decreases we will achieve by reducing programs that have achieved their purpose, that duplicate other

programs or that are not an appropriate use of limited Federal resources.

I believe that this budget, together with the activities of other agencies, will provide the vital new investment in human capital that we need to rebuild the American economy and ensure long-term prosperity. I look forward to working with you to implement President Clinton's economic program, and I will be happy to answer any questions that you may have.

[The prepared statement of Hon. Richard W. Riley follows:]

PREPARED STATEMENT OF HON. RICHARD W. RILEY, SECRETARY, DEPARTMENT OF
EDUCATION

Mr. Chairman and Members of the Committee: It is a pleasure to be here today and to have this opportunity to discuss with you the role of education in President Clinton's economic plan to move our Nation toward a future of prosperity that is both visionary and realistic.

The President's plan for our Nation's economic recovery consists of three parts: An immediate *stimulus* program to boost the economy in the short run by creating new jobs, an *investment* package to ensure long-term competitiveness and prosperity, and *reducing the Federal deficit* to alleviate the drain on national savings and to encourage private investments. Education—our investment in human capital—is a prime ingredient in this plan for the Nation's future.

STIMULUS PACKAGE

Last week I testified before the House Appropriations Committee in support of the President's request for a 1993 economic stimulus supplemental appropriation of almost \$2.8 billion for three activities in the Department of Education: \$500 million for Chapter 1 programs this summer that will employ to 83,000 teachers and other staff to provide remedial reading, mathematics, and other services to as many as 750,000 disadvantaged elementary and secondary students; \$235 million in additional Chapter 1 funding to ease the transition for districts that will lose funds in fiscal year 1993—and could lose services to 250,000 students and up to 6,000 teaching jobs—as a result of using 1990 Census data to allocate funds; and \$2 billion to pay off the entire Pell Grant shortfall from prior years and to ensure that no student's award will be reduced for the upcoming 1993-94 school year. The shortfall represented a large, inherited deficit that would have prevented us from making needed investments in education while living within our budget. The supplemental will allow us to issue a Pell payment schedule immediately, so that students who are now making plans for next fall will be able to find out how much grant aid will be available.

LONG-TERM INVESTMENT

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First, we will offer a national education reform program designed to help make systemic reform a reality in all of America's schools. Comprehensive, systemic reform includes setting goals and standards, improving curricula and instruction, developing better assessments to tell us whether students are meeting high standards, encouraging parental and family support, restructuring schools, and giving students real opportunities to move from school to work or college.

Interest in systemic reform is growing in States and local school districts. It is not easy, but it offers the best hope for reaching our National Education Goals and helping *all* students reach challenging standards. Systemic reform also captures an important theme of the Clinton Presidency: the coupling of responsibility with opportunity. Systemic reform will not only hold students responsible for reaching high standards of academic achievement, it also will help assure that all students are given real opportunities to meet those standards.

A number of States and communities are already moving toward systemic reform, and our education reform legislation will help speed up their progress. This legislation, which we plan to call the "Goals 2000: Educate America Act," will (1) make the National Education Goals a matter of formal national policy; (2) set up a distin-

guished council to certify that the academic standards—which spell out what students should know and be able to do—and the voluntary assessments—which tell us if students are meeting the standards—are of the highest quality; (3) establish an Opportunity to Learn Commission to develop standards for teaching and curricula that are tied to the academic standards; and (4) accelerate reform by offering Federal grants to help States, school districts, and schools design and implement comprehensive strategies to assist all students to achieve world class standards.

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The reauthorization of the research and data collection activities of our Office of Educational Research and Improvement, on which we also are working, will contribute to systemic reform as well by putting in place mechanisms for determining what works best in teaching and learning, and for helping teachers and school leaders around the country to use these practices.

In addition to education reform, we will propose a new program to support local efforts to help make schools safe and free from violence, particularly in those areas experiencing the highest incidence of violence in the schools.

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We also want to explore ways to streamline and cut costs in the Department's loan programs. The current guaranteed student loan system is too complicated and expensive. We are looking at an array of options for structuring the system to achieve greater cost effectiveness and to ensure that more of the taxpayers' hard-earned money reaches its intended beneficiaries. Full direct lending is one such option; there are several others as well. There are also complex and delicate issues raised by the transition from our current system to something better. The President will resolve these issues in a way that best serves students and taxpayers.

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CONCLUSION

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tionary portion of our budget will reach almost \$28 billion, or 19.5 percent above the 1993 level.

These increases are net of decreases we will achieve reducing programs that have achieved their purpose, that duplicate other programs, or that are not an appropriate use of limited Federal resources.

I believe that this budget, together with activities at other agencies, will provide the vital new investments in human capital that we need to rebuild the American economy and ensure long-term prosperity. I look forward to working with you to implement President Clinton's economic program, and I will be happy to answer any questions you may have.

Chairman SABO. Thank you for your presentation.

Rather than asking some questions of my own, I yield to Mr. Education on our committee, Mr. Kildee.

Mr. KILDEE. Thank you very much, Mr. Chairman.

Mr. Secretary, I am delighted, first of all, over the President's selection of you as Secretary of Education. I was cosponsor of the bill several years ago to establish the Department of Education, and he has really done well in your selection. I have followed your career as governor, your involvement in education reform in your own State and with the National Governors Association. I look forward to working with you. I will have you before my own subcommittee soon and look forward to that also.

Generally, in this country, we look upon education as being a local function, a State responsibility, but a very, very important Federal concern. It is a Federal concern because we are a very mobile society, and we are competing in a global economy now. I am very thrilled with your idea that we have to have systemic reform in education.

Could I ask you what you hope to achieve on the local level—since education is generally a local function—on the local level in systemic reform, and how would you involve people on the local level in that reform?

Secretary RILEY. Thank you, sir. The whole concept of developing this framework of systemic reform through the Goals 2000: Educate America Act, is, Congressman, as you know, I am sure, that all facets of the education puzzle be in sync, one with the other, that the curricula is in sync with teacher training and with the textbooks, with all aspects of the educational system, from top down, and bottom up.

When you take that into the classroom, of course, the measure we will propose would call for State and local action plans to be developed in a carefully decided way on how the local communities and even the local schools will work towards compliance with reaching the national education goals—the whole concept being that the goals are at the top. They are carefully thought out goals. They are approved by the governors. It is bipartisan support. President Clinton was very much involved in that process.

This is an effort to have the goals, really the goals of this Nation, the national education goals, be the goals of that classroom. They will be the goals of the school and of the school district. So, yes, once the framework is established, then it would be movement and support from the ground up. All of the resources would move towards those goals. Then the local schools and communities would have the opportunity, really, to develop their plans; how they, as a classroom or as a school, will move towards those academic goals.

The opportunity to learn standards, of course, are another part of the Educate America Act framework. And that is a part that has been discussed a great deal, referred to generally as school delivery standards. This measure refers to them as opportunity to learn standards. The classroom or the local school must have certain standards for teachers, teachers capable to teach to these high standards, and a curriculum that would help students, especially disadvantaged students, to move towards these high standards.

So we think it would put everything in a good framework and have real important resources moving upward in the right direction.

Mr. KILDEE. So you would establish the goals and then throughout the country they would look at themselves, the various school districts, the States look at themselves and see how they can achieve those goals. Could we have, then, a variety of methodologies out there so we can compare one with the other through such things as the National Diffusion Network to see what might work best and share ideas? We are not going to impose a system, but we are going to have some goals and let them work out ways to achieve those goals?

Secretary RILEY. Yes. And the way you present that is exactly right. We take all of the schools out there, 100,000 plus, every school then should be engaged in its own creative mechanism with which to reach these high standards. And, as you point out, it would vary from region to region and district to district, and that is called for in this diverse country of these diverse strengths. And all of that creativity would be called for and encouraged. We think that it would provide a very powerful force of educational improvement throughout the country.

Mr. KILDEE [presiding]. Thank you very much, Mr. Secretary. My time has expired.

Mr. Allard.

Mr. ALLARD. Thank you very much, Mr. Chairman. I wanted to direct some of my questions to the National Service program that you are putting together, and I have been informed that there was an article in today's Washington Post that indicated that the first-year cost of the administration's National Service proposal is \$400 million. However, in the administration's economic plan they only proposed \$98 million in funding. Where do you anticipate getting the additional \$300 million for that particular program in the first year?

Secretary RILEY. The \$400 million is budget authority for 1994, which represents, I think, program costs for some 25,000 students. This year, the program would start as a summer program for 1,000 students. The proposed funding of \$400 million is supposed to cover program cost for 1994.

Mr. ALLARD. But in the 1994 budget, if I recall correctly the administration's plan, they would set aside \$98 million to pay for it. And, according to that article, expenses are around \$400 million. So you are about \$300 million short in 1994, according to what I am able to put together and would like to know where you plan on picking up that extra \$300 million, later years on the 5-year budget or what?

Secretary RILEY. Well, that is a good question if that is correct. I have been informed that it is probably a difference between outlays—\$98 million—and budget authority, so I think it is a technical situation. As I understand it, the \$400 million is in the budget or will be for fiscal year 1994.

Mr. SKELLY. Yes, sir.

Mr. ALLARD. The other area that I wanted to talk with you about is the direct loan program. We last session wrestled with it. It is very controversial among the Members of Congress. And, finally, it was decided that we set up a demonstration project or at least try it out on a limited basis and see how it works. And then, if it works out satisfactorily, expand the program throughout the country.

I am curious to know why the administration is in such a big hurry to push ahead with the direct loan program when we are still waiting for the results from the study.

Secretary RILEY. Well, I think all of the indications, Congressman, are that the Federal program of guaranteed student loans needs changing. And some recommend one mechanism and some another, but I think the fact is, that it does need changing. The move last year, then, to put in place the pilot Direct Loan Demonstration program, I think, was a good move. Since the program is forward funded, of course, the program wouldn't get into place until next year, and, of course, would begin providing information from that time forward.

That is still generally part of the plan. It is a question of whether you call it a pilot demonstration program or a phased-in program. The inclination—and there is still work being done, as I indicated in my statement, on that, but the inclination is that there would be a phased-in program of direct loans, which would work very similar to the pilot concept. And I think all of the work that will be taking place on the direct loan issue and all of the other student aid programs will be shaping up more over the next several weeks. But, the general concept that the Congress has set in place is still out there, but it has been expanded, and we anticipate that direct loans would be a phased-in program. Of course we could shape and modify it, all of us together, as we found out helpful information.

Mr. ALLARD. I just see that we may fall into a trap here if we try and push this too fast because both the CRS and GAO have released reports within the last several months that stated that direct lending is not going to save the government as much money as first believed, and I would hate to get us into another budget problem here if the savings aren't there, as some of the proponents of direct lending have suggested.

Secretary RILEY. Congressman, I think it is my judgment—and I have seen the reports—it is my judgment that there are significant savings to be had, if we set the program up properly. And I think all of us need to be very careful about that and not speed in to a quick decision about the details of it without working it out. But I am convinced that significant savings could result. We have looked at it, and we think that a program properly put in place can have savings in the range of the initial anticipated savings estimate.

Mr. ALLARD. Well, Mr. Secretary, it looks like I am running out of time. I would like to thank you for coming before the committee.

I guess I would note for the record that you are one of the few witnesses who testified in favor of the balanced budget amendment last year. I hope you are still committed to that. I am committed to it. Thank you.

Secretary RILEY. Well, I think I might respond to that. I sat in this very chair and said, I guess it was last year or the year before—anyhow it was within the last couple of years. My statement to the committee, as you recall, is that I had never favored a balanced budget provision, and I still was concerned that it was not the best way to arrive at a solution, but that I was so discouraged with this deficit and debt situation that I had decided to be for anything, and that was kind of a negative way of saying that any initiative at that point in time I was in favor of, and I did speak in favor of it.

Mr. ALLARD. Well, as the governor of your State, you operated under a balanced budget.

Secretary RILEY. Sure do, and it works very well.

Mr. ALLARD. Thank you.

Thank you, Mr. Chairman.

Mr. KILDEE. Mr. Price.

Mr. PRICE. Thank you, Mr. Chairman.

Welcome, Mr. Secretary. We are very, very glad to have you where you are and to have you before us today.

I would like to concentrate on the portion of your testimony that focuses on life-long learning. I realize that these items are not totally within your Department's budget, they cross departmental lines, but, nonetheless, it is clear that that is an important focus for the administration. So I would like to ask you to elaborate on some of your plans, the first having to do with early childhood education and the second having to do with training for the workplace.

First, in the early childhood area, I think we are all aware of just how great our national need is in that area. In our State of North Carolina, kindergarten teachers tell us that fully 40 percent of the kids they see on the first day of kindergarten are, for one reason or another, not ready to learn. That may partly be a matter of poor nutrition, poor health, chaotic family situations, absence of participation in Head Start and early programs that could have made a difference. And so it is clear that this administration is on to this problem and sees that much of what we want to do in education reform later on in the later grades is not going to amount to much if we have these deficiencies lingering from children's very early years.

You mentioned Head Start and WIC. Could you give us an overview of the administration's priorities, the immediate priorities in that early childhood area?

Secretary RILEY. All right, sir. Of course the Head Start, WIC, and the immunization efforts are three things that have been strongly endorsed by the President and strongly supported certainly by the administration. Let me mention a couple of programs that we have in the Department of Education that contribute to this area, which really is goal one. I think it is important to think, Congressman, in terms of these goals when we frame issues in the early childhood area.

Goal one, of course, is that every child be ready to learn when they go to school, and that is a rather simple statement, but it is a very, very important goal for this country. When you say that goal then is adopted formally as a policy of this country, then you are saying to every child out there born and unborn that, yes, we want to have in place whatever is necessary for your child who is disadvantaged or your child who is advantaged.

We are going to have those processes necessary for you, for you to have a good education and to ensure you are ready to learn by the time you enter school, and that is a very strong commitment. Some other programs which we have are, Even Start, which I know you are familiar with, that ties in education of the parent with that of the child. It is a wonderful concept. Also, the Special Education for Infants and Families program which helps States implement comprehensive systems for providing early intervention services to children with disabilities. Also, Chapter 1 school districts have the flexibility to use Chapter 1 local fund grants at the pre-school levels. So we have certain programs that are out there now available to us, but the ones you mention certainly are the most important in terms of size and reaching more children—the Head Start, immunization, and the WIC efforts.

You asked then, on the other hand, about the school to work side of things, and again that shifts over into the Department of Labor, when it comes to the jobs side of it. We are working, as I indicated, very closely with Secretary Shalala on the HHS side and Dr. Reich on the Labor side, and that also, I think, will be a very important facet of this life-long learning concept.

I was talking with a number of people this morning who have a real interest in that, talked about how important it is for the young student in high school to think out ahead and realize that they are going to change jobs probably seven times during their lifetime. No matter what they prepare themselves for, unless they are prepared to learn and continue to learn with those basic necessary parts of that preparation, they are going to have difficulties.

This business of having the clear option of going into preparation for the world of work in a high level career way is a very important need for this country. We have programs like Tech Prep that are out there now in some areas, that work very well. Some areas are not that involved with it, but the whole concept of every high school student in this country then having a very real opportunity to master a career direction or to go into a 4-year or 2-year college program, we think, is a very important part of this life-long learning concept.

Mr. PRICE. I am glad to hear you say that, Mr. Secretary, particularly encouraged to hear you emphasize the work of these 2-year colleges, our community colleges. I am sure you would agree that they are on the front lines of this training for the workplace. I know the high tech companies in my part of North Carolina tell me they are not hiring anyone without 2 years of training past high school, and we are told nationwide that most of the new jobs coming on line, especially in these frontier kinds of industries are at that level, at the level of requiring not just a high school degree but 2 years beyond high school, and so clearly the quality of what is going on at the community college level is very important to our

economic future and to the opportunities that millions of young people and people at mid-career are going to enjoy.

You referred to the Tech Prep program. Of course we have the whole concept there is to tie vocational education in high school to the 2 years past high school, and we are hoping to enlist the National Science Foundation now in that effort. In the closing days of the last Congress we passed the Advanced Technical Education Act which is going to get the National Science Foundation working with the community colleges in developing a new generation of curricula and teaching methods which will be suited for tomorrow's workplace, and so I know there is going to be a good deal of inter-departmental collaboration that has to go on, but I hope very much that we can focus on those community colleges which I think in the past have often been a neglected element in the educational system.

I hope we can focus on those community colleges and enlist them in this cause because our economic future depends on it.

Secretary RILEY. Thank you, sir. I am so glad to have you, Congressman, involved in this area. I know you were a distinguished professor. I think it is also the importance of the community college is extremely noteworthy as we look at lifetime learning, but I think also we need to think in terms of nobody starting in one direction or another and not having the ability to shift from the college route over to a career route at any stage. We have an awful lot of college graduates now who are unemployed. We also need to have the clear possibility to shift from career over to college. So I think to have both those systems, enabling the clear movement of students from one track to the other, and enabling people to proceed with their lifetime learning in the best way possible, makes a whole lot of sense.

Mr. PRICE. Thank you very much.

Mr. KILDEE. The gentleman's time has expired. Mr. Miller.

Mr. MILLER. Mr. Secretary, thank you very much for coming. I am a freshman Member of this, and I am going through an educational process of my own right now, as you are probably going through an educational process in the Department of Education.

Secretary RILEY. You and I are both freshmen.

Mr. MILLER. I haven't been a freshman for 32 years, and now I am back to being a freshman again. Coming out of the State government as a governor and your predecessor in the Department of Education was a governor and of course our President, you have a great deal of respect for the needs of States' rights and the States' role.

A complaint I have heard many times in Florida is that so many of the mandates and so many of the people in Tallahassee up in our, ivory tower, glass building of the Department of Education in Tallahassee are there because of Federal mandates. My question is two part for you.

First of all, do you or can you identify as of now any mandates or problems with these regulations that should be changed or removed on the States to give them more flexibility in the education process and then the other part of that is how do you, as you develop your program, keep from getting unnecessary bureaucracy at the State level to satisfy a Federal mandate?

Secretary RILEY. Well, that is something, as you say, as a former governor I would be very much tuned in to. Education, of course, is the primary responsibility of the States and the local school districts in this country. The Federal funding is in the neighborhood of 7 or 8 percent of the total.

This year we will begin the very interesting work on reauthorization of the Elementary and Secondary Education Act, and also the Office of Education, Research and Improvement, and in both of those, really, we will be looking at that subject, but especially in elementary and secondary programs. There is an awful lot of interest in having Chapter 1, which goes to students who are disadvantaged and to areas that have a high percentage of disadvantaged young people, there is an awful lot of interest in looking at those Chapter 1 programs, in trying to give them more flexibility to use the money, which of course, would go to the young people, but how that money can best be spent giving more flexibility for the local users of the funds. There is some real feeling that you can take, for example, a look at options to taking a child out of class for 10 minutes and giving that child some intensive good extra special help, which I am sure that is very valuable help. But the record keeping for getting the 10 minutes to this child and 10 minutes to that child and 10 minutes average across the country, means that millions of dollars are required for records, when there is some real feeling that you could do more things in the classroom.

Remember, this is a class that has a large percentage of disadvantaged kids in it, and being with the whole class would help that disadvantaged kid more than pulling him out for 10 minutes and then putting him back in and disrupting their hour. So some of those things that the committee is dealing with education, of course, in the House and Senate we will be looking at this year and perhaps next year. All of these issues of flexibility and regulations would be looked at, as that is a very important part of the Federal Government's involvement in education.

Mr. MILLER. Very fine. I am on the Education and Labor Committee, so I will be working with you on those subcommittees that are appropriate there, too, so I look forward to that. I think that is going to be always in the back of my mind. I know you, being a former governor, that is a concern of yours. A phrase we are hearing a lot now is the question of investment and consumption.

As a former businessman I know what investment is, I think, but we are trying to be educated on that. Is basically all education an investment—

Secretary RILEY. Is all—

Mr. MILLER. [continuing] versus a consumption expense?

Secretary RILEY. Is all money spent by the government in education an investment? I would say it is. Anytime—of course when we look at the stimulus program, there are jobs in those programs which certainly help all of us. Those jobs, then, are really a way of investing in human capital, and so I would answer your question that any government funds, unless misused, that go to this purpose for education would be investment funds.

Now that is one reason why I want to try to develop this systemic reform package and hopefully this Congress will pass it this year. It focuses all education dollars in a very well thought out di-

rection looking at these national goals. The national education goals, are very well thought out, and they give us the mechanism for seeing to it that dollars put in education are, indeed, investment dollars and not consumption dollars.

Mr. MILLER. Thank you.

Mr. KILDEE. The gentleman's time has expired. If I may, on that point, I think a model for the demonstration that education is an investment is the GI Bill of Rights. I can recall in my area of Flint, Michigan, my side of town, almost no one went to college until the GI Bill of Rights came along, and those people who went to college are generally now of retirement or post-retirement age. They have contributed far more to the Treasury because they became greater wage earners as a result of their education than they ever withdrew from the Treasury under the GI Bill of Rights. It really transformed this country.

I think it was a quantum leap forward, the GI Bill of Rights, as far as higher education and training in this country I think that was a clear example of investment.

Mrs. Mink.

Mrs. MINK. Thank you, Mr. Chairman. Welcome, Mr. Secretary. I certainly endorse wholeheartedly yours and the President's commitment to investment in our young people, both in the short term as well as in the long term, and I realize that our responsibility here in the Budget Committee is to come up with the target dollars that this function is to be allocated for the next fiscal year, and we are somewhat handicapped in working towards a suitable target figure for education because we don't have the details on the administration's new proposals.

I would like to ask a question that has concerned me. In looking over the papers that we have been presented, we are mainly concentrating in the function and terms of the savings and in the increases in spending. Not much is made available to us in order to understand what are the changes or proposed alterations or new emphasis or new directions or new funding plans for the future in the K through 12 area, I am specifically directing my question to the elementary, secondary education field which I know we will be dealing with in the Education and Labor Committee in terms of the details and the substance, but for budgetary purposes, what can you tell us about K through 12 and basically the ESEA budget requirements, are we holding firm pretty much over the next 4 years? Are there going to be reductions? In looking to your national goals, is there to be restructuring of ESEA to fit the national goals, and if so, how would you characterize these changes that you are contemplating?

Secretary RILEY. I appreciate the correspondence that I received from you, and one request was that we have a chance to meet, and I will certainly see that we try to make arrangements for that very soon. To address your question, you know, we talk about all these plans and all the acts of Congress and whatever, but it all gets back down to teaching and learning, and that is a very basic issue when you are interested in young people and their education. How does all this affect the classroom?

That is really what we are talking about, and I would submit to you that first of all, of course, dollars spent on the Federal level

are not the basic dollars for elementary and secondary education. They are supplemental dollars with special purposes, and any way that we could use our Federal dollars to help support, help lead local and State dollars to be more effectively used, I think, is really money well spent.

It gets a little difficult, Mrs. Mink, when you try to plan for something that is as important to you and me as education, and you realize someone else has the lion's share of that responsibility. What we hope is that if we can perform the advantage of setting the goals, the standards, the national assessment, and have in place the opportunity to learn standards, that it would then call for action plans on the State and local level and school level. We hope that a thinking and planning and leadership process at those levels would take place, such as, if we are going for these high standards, we have got to have a teacher who has the opportunity to be professionally developed from time to time because things are changing all the time in this world of knowledge, and if we don't have that, then it doesn't make fair sense to these kids to put high standards on them if they don't have a teacher who has the opportunity to have professional development constantly.

You look at the same with curriculum, the same with textbooks, with facilities and whatever. So I will hope that the use of money at the Federal level would go for this very important purpose to really spread the State and local dollars in the most meaningful way. We have money for research, development of ideas; we have money for analyzing what others are doing and what is working, and who is moving faster to reach certain goals that we are looking at. Then our responsibility to share that information, to spread it around to the States and local school districts for their value and use makes a very important role in the whole package. That is how I would hope that the Federal Government would impact the local classroom, and I really think that is the proper Federal role under the system we operate.

Mrs. MINK. Just one follow-up question. In the materials that have been disseminated under the Function 500 it shows education reform and initiatives, and over the 4-year period, 1994, 1995, 1996, and 1997 it shows approximately \$9 billion infused into the elementary, secondary education field for reform and initiatives. I just wanted to have some clarification that these apparently are new dollars coming into the K-12 area, perhaps not necessarily into the classroom, but at least into the delivery system that we have been talking so much about in our committee deliberations on the essential requirements of reform we can set goals and standards and assessments, but it is critical that funds be allocated for improvements of the delivery system in each of the classrooms and schools throughout the country.

My question is, in looking at these dollars that are set down here under the rubric education reform, is that what you are more or less guided by in coming up with additional dollars or are there some other elements that are missing?

Secretary RILEY. Well, of course the details of that would be provided in our April 5th submission. The numbers, generally the \$500 million, is for the systemic reform measure, should it pass. Those funds primarily would be going down to help the States and the

local school districts develop their action plans, to help them develop ways to do things better, to leverage their funds in the best way possible, as I discussed a minute ago. Also, I think a piece of that was for safe schools—I think that is a special need that is out there and another approach that the President wanted to address, so I think it would be a piece of that, but most of that \$500 million was for the systemic education reform effort.

Mrs. MINK. Thank you, Mr. Chairman.

Mr. KILDEE. The gentlelady's time has expired. Mr. Secretary, we have, I believe, a series of votes taking place in the House, which means the first vote will be a 15 minute vote, and then I am not sure, there could be several after that, 4, 5 minute votes which means that we really have to recess for at least a half hour or more. Now, does your schedule permit you to remain? I know you—

Secretary RILEY. Yes, sir, I will see that my schedule permits me to remain. This is a priority with me.

Mr. KILDEE. It might be a little more than half an hour, but if you could remain, could you take a 7th inning stretch while we are gone? This is a bad day because we have suspensions up, but if you could remain—Mr. Smith will ask a question, and I will ask the gentleman from Texas to take the Chair, and I will be back as soon as I can then. Mr. Smith from Michigan.

Mr. SMITH OF MICHIGAN. Thank you very much. Mr. Secretary, I am interested in what you see happening as far as some national standards for academic competency, developing those standards. Do you see your Department developing those standards in the next 2 years so that we would have some kind of assessment? Also, will you develop the assessment testing so that it might be made available to States and local school districts? And, number three, do you see passing on some of the costs of that assessment testing to States or will some of our existing Federal funds be used for it?

Secretary RILEY. All right, sir. Congressman, the proposed legislation which very soon will be completed by the President and sent over to be introduced, adopts the national goals and puts in law the formation of the goals panel. The absolute final language has not been completed, but it basically will be exactly as it is—a bipartisan group, 50 percent Democrat, 50 percent Republican, regardless of who is in majority. It includes top policy people; the President has two appointments, as you know, and Congress is represented, and the governors.

This goals panel, then, under that proposal, would choose a council which would deal with standards and assessment. This would be a top level group of people who then would have the responsibility—

Mr. SMITH OF MICHIGAN. Would you have any target date that you think you would encourage that council to come in with those standards and assessment procedures?

Secretary RILEY. Of course, the sooner we can get under way with that, the better it is. The goals panel is in operation now, though not created by statute. As you know, the math teachers and that effort have already come forward with proposed math standards, and those are pretty well done, and so we are down the road pretty far on that.

For all of the other core subjects, then, the council, which is chosen by the goals panel, would then act as quickly as possible. As to time, I would certainly hope 2 years. It is really kind of hard to tell, but this process is not brand new. It is something that we are looking at and have been looking at, and the governors, of course, are very much interested in it and have been.

Then in terms of the States and the assessing process, it is very likely that, say, your State would probably do assessing, the assessment varying from State to State, however it would have to be certified by the Federal council that would be looking at the standards and the goals from a national standpoint. All that is voluntary. Nothing that we do in education from the national standpoint dealing with standards assessment, curriculum, none of that can be mandatory. It is all voluntary.

MR. SMITH OF MICHIGAN. You mentioned the word you were going to leverage the 6 or 8 percent of the money that comes from the Federal Government. Did I understand you to say you were going to leverage that Federal contribution to help assure compliance in the States?

SECRETARY RILEY. Well, it is not compliance. All that is voluntary. If a State complies, it is because it is a national purpose and a State wants to be part of it and because we have spent the money and effort to develop the kind of systems that work, and a State buys into that. Unless we could convince a State of that, of course, it would stay outside.

Our hope is it will become a voluntary leveraging mechanism. The leverage meaning, that we only put in a small piece of the education dollar, but if we, using our information available for what is happening in all States, with all of the research dollars and so forth, we can take a dollar of ours and cause a State to have a much better way of spending \$10 of theirs—a more efficient way, more effective, and so forth.

That is what I mean by leveraging the impact of the Federal available support systems, but it is support systems, and if the State assessment is certified, then it would be a certified system to measure reaching these standards in order to reach these goals, and then the same at the local level. The funding for most of that, of course, would be from the States and the local governments.

The national function would be to provide the standards through these councils and mechanisms that they would provide, and then support and facilitate the State and local school district efforts.

MR. SMITH OF MICHIGAN. Thank you, sir. Thank you, Mr. Chairman.

MR. STENHOLM [presiding]. Mr. Secretary, this is your lucky day. I have been instructed to adjourn this hearing at this moment, and I will submit my questions to you in writing. I would appreciate your answering several questions that we had, particularly concerning the formula funding and some of what I consider to be some unfairness in that formula funding. We will submit those to you in writing.

We have five votes now, so it will be 35 to 45 minutes. We don't think it is fair to keep you and your staff waiting here during that period of time, so we will now adjourn this hearing. Thank you

very much for your attendance here. We look forward to working with you, sir.

Secretary RILEY. Thank you, Congressman. Thank you so much. [Whereupon, at 3:05 p.m., the committee was adjourned.] [Additional material submitted for the record follows.]

QUESTIONS SUBMITTED BY HON. CHARLES W. STENHOLM, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS, TO HON. ROBERT W. RILEY, SECRETARY OF EDUCATION, AND RESPONSES TO SAME

CHAPTER 1 FUNDING FORMULA

Question. In "A Vision of Change in America," the President indicates he will seek a "hold harmless" appropriation for States which will be negatively affected by changes in chapter 1 funding formulas. Children in many States have had to make due with less because of current inequities in the formula. It appears that the supplemental appropriation will do nothing for children in many of the southern and western states and only further the inequities. How does the Department intend to make up for the shortfalls many other States have suffered in the last few years?

Response. Although the Census supplemental would mainly help the States that have fewer poor children, relative to the national average, than they had in 1980, the summer supplemental will have, in large measure, the opposite effect. The summer funds would be allocated using 1990 Census data, so all the population gains would be taken into account; this will be very helpful to the southern and western States that have experienced such gains. Those States that now have high concentrations of poverty would also be helped by the fact that the summer money would go out under the Concentration Grants formula. Finally, I should note that the Administration has requested \$500 million for the summer supplemental but only \$235 million for the Census supplemental; thus the summer supplemental, which helps the population-gaining States, would be more than twice as big as the census supplemental, which helps the losing States.

Question. Even with the changes in the current formulas, Texas still will receive \$73 million less than New York despite the fact that Texas has 161,000 more poor children. Are you willing to work toward a change in policy which would ensure annual updates in census figures in all future Chapter 1 formula allocations?

Response. Currently, no data are available that could be used to make adjustments in county-level poverty data. However, the Department, along with other agencies, is contracting with the Census Bureau to develop a model that would allow for biennial updates of those data. If this project is successful, it could allow for the use of updated data as early as 1997. This would obviously be of great benefit to growth States like Texas.

The differences in per-child allocations between New York and Texas are attributable not only to the child-count data but also to the fact that the Chapter 1 formula is weighted by State per-pupil expenditures for education. Some critics have charged that this is unfair to the poorer States. We are looking carefully at this issue in preparing for the upcoming reauthorization of the Chapter 1 program.

STUDENT AID—FEDERAL DIRECT LENDING

Question. If direct lending replaces the existing loan programs, what will the Department of Education do to address concerns raised in the GAO report on direct lending with regard to administering the program?

Response. First, the Department of Education is taking a number of steps to improve its administrative performance of student financial assistance programs. These changes include: Reorganizing the Office of Postsecondary Education to improve management and coordination of critical financial, data collection, and institutional monitoring functions; increasing the administrative resources focused on institutional eligibility and certification, and on monitoring and program review activities; intensifying efforts to improve accounting and financial management systems and procedures; implementing the National Student Loan Data System (NSLDS) to centralize and standardize data, improve data quality, and increase data control; redesigning the Institutional Data System (IDS) to improve institutional data and facilitate gatekeeping activities; and improving the delivery of Federal student financial aid by simplifying the application process for students, enhancing data quality and integrity, and facilitating the data verification process.

Second, I would like to point out that many of the error and abuse and data systems problems of the current guaranteed student loans system result from the com-

plexity of the system. A direct loan system, with far fewer agencies and transactions to monitor, would be much less difficult for the Department to oversee. Moreover, it would build on many of the delivery systems used for the other student aid programs, with which the Department has many years of experience.

Finally, I have designated the Federal Direct Loan Program as a top priority for the Department. We are working closely with other Federal agencies (including the Office of Management and Budget and the Department of Treasury) to facilitate government-wide cooperation. I have established a Direct Loans advisory committee of higher education finance experts and administrators, and we are consulting with constituency groups, such as the National Association of Student Financial Aid Administrators and the National Association of College and University Business Officers.

SAVINGS FROM DIRECT LOANS OVER CURRENT LOAN SYSTEM

Question. The Administration's proposals have certainly provoked a good bit of fresh thinking about ways of achieving cost efficiencies in the current aid program. If a comprehensive plan for revising the current system can be presented which will produce savings in the same general order of magnitude of those proposed for direct lending, will the Administration give serious consideration to such an alternative proposal?

Response. We are open to suggestions for modifying the Federal Family Education Loan Program (FFEL), the current system of guaranteed loans. However, I want to make it clear that we are advocating a Federal direct loan structure, and we are doing so not solely to achieve budget savings. A direct loan system would substantially simplify student loan delivery for students and schools. For example, it would allow the use of a single application form for all Federal student aid programs. There are systemic problems of lax accountability and error-proneness within the current, complex structure that we believe are best addressed through a less complex system of direct loans.

I would also like to point out that efforts to achieve significant budgetary savings in the Federal Family Education Loan Program could result in reduced benefits for students or seriously impair access to loans. For example, if interest subsidy payments to lenders are significantly reduced, banks will become much more selective in making loans to students. The easiest way to produce savings under the current system is to increase fees or interest rates paid by the borrowers. The Department's proposal protects current borrower benefits, and could even be used as a means of reducing borrower fees and interest rates somewhat. Under the current structure, it is difficult to achieve cost reductions, reduce error and abuse, and also maintain universal access to loan capital. Direct lending addresses all of these objectives.

DIRECT LOAN PHASE-IN PLANNED TO AVOID LOAN DISRUPTION

Question. Has the Administration thought about the serious potential for disruption in the flow of student aid during the transition from private lending to direct Federal lending?

Response. The direct loan system would be phased in over a 4-year period so that the transition from guaranteed student loans to direct loans can be managed in the most prudent manner. During the 4-year phase-in to direct lending, guaranty agencies are expected to continue providing loan guarantees and "last resort" loan access so that students attending schools that are not yet participating in the direct loan system would continue to have access to student loans.

We believe private lenders would still have a strong incentive to participate in the guaranteed student loan system during the transition period since they would continue to receive a profitable, assured interest yield and 100 percent reimbursement for loan defaults. In order to help maintain the financial stability of guaranty agencies, the Department proposes to pay an administrative cost allowance based on the amount of loans outstanding rather than the amount of new loan volume.

PRIVATE LENDER PARTICIPATION DURING TRANSITION

Question. If private lenders conclude that the Administration is determined to displace their activities fully by 1997, isn't it likely that many will begin winding down their activities well in advance of that date? If that happens, and the direct loan program is still in pilot start-up, where do students go for loans?

Response. As long as student loans remain 100 percent insured and provide a profitable yield for private lenders, the banks will continue to participate in the current program. Guaranty agencies would provide for "last resort" access to loans, as

they are required to do under current law. Also, banks can be expected to continue their participation during the transition period in order to maintain good relationships with colleges and other postsecondary institutions.

UNIVERSITY SHARE OF ADMINISTRATIVE COSTS

Question. A number of colleges and universities in my district have indicated some skepticism regarding direct lending. Specifically, they are concerned about how the local administrative costs will be paid. How will these costs be borne?

Response. The currently authorized Federal Direct Loan Demonstration Program is being designed to alleviate as much burden as possible for schools. For example, participating institutions will be provided with software to support loan origination, funds disbursement, and funds reconciliation. Many sources of burden for schools under the current Federal Family Education Loan programs (e.g., lack of standardization and low level of automation due to multiple guarantors and lenders), will be eliminated under a Federal direct lending program.

IMPACT OF DIRECT LENDING ON PRIVATE LENDER EMPLOYMENT

Question. What plans have been made to retrain the many thousands who work in banks, thrifts, credit unions, and guarantee agencies who will be displaced by direct lending?

Response. It is unlikely that those employed by private banks will be displaced because the money which is not lent for student loans will be lent for other purposes. Many of the current private and State agency participants in the guaranteed loan programs could continue to provide services under a Federal direct lending program. The difference is that the participants will be contractors to the Department, rather than independent lenders, servicers, and guaranty agencies. Therefore, many of the employees who currently work for loan servicers or guaranty agencies will have the opportunity to continue employment within the student loan system.

NATIONAL SERVICE INITIATIVE

Question. What kinds of jobs will the students be doing under the National Service program?

Response. Participants in the National Service initiative will meet pressing national needs in areas including education, public health, environmental protection and public safety.

Question. Do enough job vacancies exist to allow the expected thousands of students places to work?

Response. The Administration proposed a gradual phase-in of the National Service initiative. This summer, 1,000 young people will serve their communities and participate in leadership training activities as part of the Summer of Service initiative. In FY 1997, more than 100,000 young people will be serving in communities throughout the country.

Question. Are there cost-effective ways the private sector can share in the financial responsibility of national service?

Response. Many existing national or community service programs, even those run by State or local governments, are financed primarily through private contributions (e.g., Boston's City Year). The National Service Initiative will allow private firms to participate in the planning, funding, and operations of community service activities.

PELL GRANT SHORTFALL

Question. What safeguards will you be putting into place to ensure that a Pell Grant shortfall doesn't happen again?

Response. Like other Federal programs, such as Food Stamps and Aid For Dependent Children (AFDC), whose costs are affected by external economic factors and human behavior, Pell Grant costs are inherently difficult to predict, especially two years in advance as required by the budget process. Thus, it is impossible to guarantee that a shortfall will not occur in the future. Nevertheless, we have taken a number of steps to make better use of available data and to generate research information for future improvements. These new actions include:

Establishing an internal technical task force, made up of experts in Pell Grant processing, financing and historical trends as well as educational researchers, to review monthly Pell Grant projections and available program information.

Conducting research, for example, to relate Pell Grant application trends to State-level factors, such as unemployment.

Working with expert economists to determine the feasibility of incorporating external factors, such as student behaviors and the national economy, into the estimation process.

Utilizing the most current partial year data to refine projections developed using older, full-year student data.

Consulting with modeling experts in other agencies, such as the Department of Agriculture and the Congressional Budget Office to ensure that we are utilizing the latest modeling methods.

Notifying Congress on a timely basis whenever the data indicate a problem is developing.

QUESTIONS SUBMITTED BY HON. BART GORDON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TENNESSEE, TO HON. ROBERT W. RILEY, SECRETARY OF EDUCATION, AND RESPONSES TO SAME

ESTIMATED COST TO PHASE-IN FEDERAL DIRECT LOANS

Question. The Administration's February Budget submission indicates that you are proposing to replace the existing guaranteed student loan program with a direct loan program. This change is projected to cost the Federal treasury \$394 million in FY 1994 and FY 1995. Please provide a specific breakdown of the activities and each of their costs.

Response. In cost estimates developed in February, the Department projected that implementing the direct loan program would result in total combined net outlays for fiscal years 1994 and 1995 of \$384 million. These net outlays resulted from subsidy savings of \$81 million and \$127 million, offset by costs of \$204 million and \$261 million in FY 1994 and FY 1995, respectively.

These costs assumed that the direct loan demonstration program would continue and would be part of the direct loan phase-in. The costs also assumed the "worst case" scenario, i.e., the Department would have to assume many functions for the current portfolio, such as lender claims servicing and oversight, which are currently performed by guaranty agencies (GA).

ADMINISTRATIVE COSTS FOR DIRECT LOANS

The following chart outlines what the specific costs and activities would have been under that scenario:

(Dollars in 000s)

	1994	1995
Personnel and associated overhead.....	\$31,380	\$35,580
ADP systems.....	5,150	35,500
Contracts:		
Lender servicing.....	14,000	16,600
Loan servicing.....	5,020	10,320
Debt collection of defaulted loans.....	13,920	27,960
Other.....	6,390	5,490
Costs associated with GA transition.....	128,000	130,000
Total costs.....	203,860	260,950

Personnel and associated overhead costs include staff compensation and benefits, and costs such as rent, telephone, PCs for new personnel, and training. ADP systems costs include implementation of a student aid delivery platform in 1995. Estimated costs for services contracted out include: lender servicing for processing lender claims now being handled by guaranty agencies; loan servicing for processing new loans and loans in repayment; and debt collection of defaulted loans. Other contracts include smart card technology, public information, training for participating institutions and evaluation. The costs associated with GA transition include items such as buying out contracts, severance pay for guaranty agency employees, and liquidation of assets.

Since these estimates were made, programmatic changes have been more fully analyzed and the Department now believes that outlays for FY 1994 and FY 1995

will be approximately \$118 million and \$102 million, respectively, primarily because subsidy savings estimates are lower due to changes in the timed phase-in of direct loans. Changes in timing also reduced first year administrative costs. We are also now assuming that some of the current participants in the program will continue to have a role in phasing out the current program and phasing in the new. However, the basic administrative workload remains consistent with our original assumptions.

Question. How much additional appropriations will be required to fund the Department's administration of this program, including loan servicing costs?

Response. The Department will propose legislation seeking authorization for permanent budget authority for the Federal administrative cost of direct loans. This authority would include phasing in direct loans and phasing out guaranteed loans. We estimate that \$127 million will be needed in FY 1994. This amount includes \$17 million in permanent authority, as provided in Section 459A of the Higher Education Act, as amended. The proposed legislation would replace this authority.

FTE NEEDED TO SUPPORT FEDERAL DIRECT LOAN PROGRAM

Question. How many new employees will be required at the Department of Education to administer this new program? In light of the budget's call for a net reduction at the Department of Education of 200 full-time equivalent positions, and the need to increase substantially the number of positions to administer a direct loan program, what is the number of existing positions which will have to be eliminated and what specific plans do you have?

Response. To remain within the administration's FTE guidelines, 69 FTE are requested for the direct loans program in 1994. The \$17 million already available will support this number of staff as well as overhead, systems, evaluation, and other contracted support costs. Therefore, the Department will not have to eliminate existing positions in order to implement the direct loan program.

The activities are primarily labor-intensive, such as collecting defaulted debt, conducting program reviews and servicing loans in repayment, and can be performed by staff or contractors. As guaranteed loans are phased out, functions currently being performed by guaranty agencies will still have to take place. The Department is exploring alternatives to standard contracts, such as long-term servicing centers, that could perform tasks with sufficient controls and incentives. Without contracts, the Department would need approximately 600 FTE by 1997 to administer program responsibilities.

MANAGEMENT OF THE FEDERAL DIRECT LOAN PROGRAM

Question. The GAO in its series on the high-risk areas in the Federal Government found the Department's management of the student loan program lacking. Now that you are calling for the elimination of banks and guaranty agencies which provide some policing of the system, the Department will have even greater responsibility for the program. Have you expressed any reservations about the Department's ability to manage a direct loan program? Do you have any concerns about the ability of the Department to manage a \$15 billion a year loan program?

Response. The complicated structure of the current Federal Family Education Loan Program does not facilitate effective government monitoring or enforcement efforts. In fact, the GAO report and similar management criticisms provide some of the strongest justification for replacing the current complex program. With approximately 8,000 banks, 47 guaranty agencies, numerous secondary markets and servicing and collection agencies, and over 10,000 schools in the current program, it is very difficult for the Department to monitor the activities of all these participants and to ensure the integrity of the program and the program data. The GAO's harshest criticism is reserved for guaranty agencies, which lack adequate incentives to manage.

It should be noted that the Department has for many years successfully managed several large-scale student aid programs that provide funds directly to institutions, such as the Pell Grant and campus-based programs (Work-Study, Supplemental Educational Opportunity Grants, and Perkins Loans). The proposed Direct Loan program would build upon the successful systems used to deliver these programs, and government-wide cooperation between the Department and the Office of Management and Budget and the Department of the Treasury. In addition, the creation of an advisory committee comprised of higher education finance experts and administrators, as well as consultation with constituency groups such as the National Association of Student Financial Aid Administrators and the National Association of College and University Business Officers, should provide a wealth of administrative knowledge in the operation of the Direct Loan program.

The Department is concerned about managing a \$15 billion a year loan program, however, given adequate resources and the elimination of most of the complexity under FFEL, ED can succeed in providing this necessary service to students. The Department is carefully planning the management of the Direct Loan Demonstration Program and will use this planning for expansion to full implementation of the Federal Direct Loan Program.

INTEGRATED SYSTEM FOR DIRECT LOANS MANAGEMENT

Question. Will any direct loans be made before there is a system in place to collect the government loans?

Response. No direct loans will be made until a loan collection system is in place. The system to support the Federal Direct Loan Demonstration program is designed to be an integrated system which will support loan origination, funds disbursement, loan servicing, default collections, and accounting and financial management. We anticipate a carefully controlled phase-in plan so that we can identify and correct any "bugs" in the direct lending delivery system before full implementation of the direct loan concept.

Question. Will the IRS be the sole collection mechanism for student loans? Will the entire IRS collection system of wage garnishment, attachment of assets, wage withholding and criminal penalties be used to collect loans?

Response. We plan to offer borrowers several repayment options, including standard amortization, graduated repayment, and income contingent repayment. We are working with the Department of Treasury to assess the requirements, feasibility, and options for IRS involvement in income-contingent repayment. The exact roles and specific responsibilities of the Department, the IRS, Federal contractors, and employers are still being developed.

OPERATIONAL RESPONSIBILITIES AND COSTS

Question. If the IRS system is used, what will be the costs on employers to satisfy the requirements? Will employers face any problems or penalties?

Response. The specific responsibilities of the Department, the IRS, and employers have not been established. Because operational responsibilities have not yet been assigned, specific costs cannot be estimated.

Question. Who will be responsible for responding to borrower concerns, complaints, and problems such as discrepancies in balances and monthly payments? The Department, the IRS, a Federal contractor?

Response. Specific responsibilities for dispute resolution have not been assigned. However, it is anticipated that the Department would have the major responsibility in this area.

ADMINISTRATIVE COSTS/RESPONSIBILITIES OF PARTICIPATING SCHOOLS

Question. Will schools face any additional costs whatsoever for their role in originating loans?

Response. The Direct Loan Demonstration Program is being designed to alleviate as much burden as possible for schools. For example, institutions will be given software to support loan origination, funds disbursement, and funds reconciliation. The information a school will provide to the Department in the origination process is substantially the same information a school provides to lenders for the Federal Family Education Loan program. Moreover, many sources of burden for schools under the current Federal Family Education Loan program (e.g., lack of standardization and low level of automation due to multiple guarantors and lenders) would be eliminated under a Federal direct lending program.

Question. Will they face any possible liabilities for improper origination or disbursement of loan funds?

Response. Potential liabilities under the Federal Direct Loan Program will not be significantly greater than under the current Federal Family Education Loan programs, with the exception of the promissory note. For instance, under the Federal Family Education Loan programs, if a school certifies a loan in excess of the amount for which the borrower is eligible, the school is liable for the difference; this will be true in the Direct Loans program as well. An additional area of potential liability to which a school may be exposed relates to promissory notes. The Direct Loan Demonstration Program regulations would prohibit a school from delivering any loan proceeds without first obtaining a completed promissory note from the borrower. It should be noted that many schools currently participate in the Perkins

Loan program, which also requires that institutions obtain completed promissory notes from students.

FEDERAL RULES AND PROCEDURES APPLICABLE TO PARTICIPATING SCHOOLS

Question. Will schools be subject to the full host of Federal contract rules and procedures, including prohibitions on making profits for holding Federal funds before they are disbursed, audit and compliance reviews, accounting reconciliation, and losses in the event that a promissory note is lost?

Response. Schools will not be considered "contractors" in the Federal Direct Loan Program. A participating school will be acting as the Department's agent for the purpose of making loans. The agreement a school signs to participate in the program will specify that the school "will accept responsibility and liability stemming from its failure to perform its functions pursuant to the agreement." We anticipate that a school will be liable for Federal Direct Loan Program funds disbursed by the school to a borrower where the school cannot furnish the Department with a corresponding completed, signed promissory note from the borrower.

The Department intends to implement fiscal controls that would require a school to establish a separate bank account for the handling of all Federal Direct Loan Demonstration Program funds, and to return to the Department any interest earned on program funds before they are disbursed. The requirement that any interest earned be returned to the Federal Government would prevent a school from having an incentive to draw down more money than is necessary for the school to meet projected borrowers' funding needs and thus increase program costs. Under a direct loan system, schools will continue to be subject to audits and compliance reviews just as they are in the Federal Family Education Loan Program and the other Federal student aid programs.

THE PRESIDENT'S BUDGET PROPOSALS FOR FISCAL YEAR 1994

WEDNESDAY, MARCH 3, 1993

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
Washington, DC.

The committee met, pursuant to call, at 10:30 a.m., Room 210, Cannon House Office Building, Hon. Martin Olav Sabo, Chairman, presiding.

Members present: Representatives Sabo, Kildee, Berman, Stenholm, Slaughter, Parker, Coyne, Mollohan, Costello, Johnston, Mink, Orton, Blackwell, Browder, Woolsey, Kasich, Kolbe, Shays, Snowe, Herger, Bunning, Smith of Texas, Allard, Miller, Lazio, Smith of Michigan, and Hoke.

Chairman SABO. Welcome. I have an opening statement and I will put that in the record and I will yield to Mr. Kasich.

[The prepared statement of Hon. Martin Olav Sabo follows:]

PREPARED STATEMENT OF HON. MARTIN OLAV SABO, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF MINNESOTA

Good morning. The House Budget Committee is called to order to continue our review and analysis of President Clinton's economic proposal.

Dr. Donna Shalala, the new Secretary for the Department of Education, is with us. Welcome, and we look forward to hearing your views.

Your Department will play a major role in accomplishing the goals the President laid out in his proposal, and we are interested in hearing how the Department will fulfill its responsibilities under this plan.

The health care problems we are facing are substantial. Escalating costs and 35 million Americans without health insurance have created grave concerns about the future of health care in our country. We are looking forward to receiving the President's comprehensive health care reform proposals later this spring.

In the meantime, we will begin consideration of the new health initiatives put forth in the President's economic proposal.

These proposals include more funding for childhood immunization, more research on health programs affecting women, increased funding for AIDs treatment and research, and proposals to control health care spending.

There will also be cuts under the Clinton proposal. Medicaid and medicare spending, for example, is scheduled to be reduced by \$40 billion over the next four years. We would like to discuss how these savings will be achieved, and how these programs will be affected.

The President has also proposed major reform of the welfare system, and increased management oversight of disability and other social security programs. In light of the neglect these programs have suffered over recent years, these are welcome initiatives.

With the exception of the Internal Revenue Service, the programs administered by your department affect more Americans than any other department. We look forward to your insights and to working with you and President Clinton on these matters.

Mr. KASICH. I just want to welcome Ms. Shalala here today. We all look forward to your testimony.

Thank you, Mr. Chairman.

Chairman SABO. Welcome to the committee. I first met Ms. Shalala in my first session here when you worked for HUD, and I have always said that you are one of the few people I remember from those days testifying before our committee, because you brought impressive credentials then. Now you are heading a cabinet, and we know you are going to make a great contribution and we look forward to your statement. And my apologies for being late.

**STATEMENT OF HON. DONNA E. SHALALA, SECRETARY,
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

Secretary SHALALA. No problem.

Thank you very much, Mr. Chairman.

Mr. Chairman, members of the committee, two weeks ago President Clinton presented to the Congress and the American people a bold plan to create jobs and invest in our future, while also cutting the deficit by at least \$140 billion over the next 4 years. I am very pleased to appear before you today to discuss some of the ways in which the President's package enhances the mission of the Department of Health and Human Services.

Right now we have a historic opportunity to protect America's future by reducing the deficit and investing wisely in the American people. We believe that we must do both and we must act quickly.

A case in point is our central challenge of controlling health care costs. The President knows that if we do not enact comprehensive health care reform, we will never lower the deficit significantly, or provide all American families with a health care system that works.

As a member of the Task Force on Health Care Reform chaired by Mrs. Clinton, I can tell you that we have been working virtually around the clock to develop a plan that fulfills both of these goals. The plan which we have promised in May will include mechanisms to control costs in the private sector, in addition to the medicare and medicaid cost control measures.

I know that you are all very concerned about the medicare and medicaid reductions presented recently. And, I want to emphasize that these budget reductions are a down payment on our overall program to reform the health care system and to control public and private health care costs. I also want to emphasize that we are proposing to reduce the rate of increase in medicare and medicaid spending, not to reduce spending for either program below existing levels.

It is very important to put these reductions in the context of the broader effort to eliminate waste in all areas of government within the health care system. As the health care system is reformed, we expect to be able to maintain quality and realize other public sector savings. For example, when we move to a system that emphasizes prevention and primary care, the public sector should save some money. More importantly, as we put people back to work and revitalize the economy, fewer people will be relying on medicaid coverage. Likewise, as we extend coverage to all workers,

medicaid costs should be reduced. The bottom line is that we think we can maintain quality and make the system more efficient as we achieve savings in the health care system down the road.

As the first step towards revitalizing the economy, President Clinton has sent the Congress a fiscal year 1993 supplemental budget request. That includes \$1.3 billion for HHS programs to create new jobs and enhance services that are essential to the American people. These budget items should be viewed as an immediate investment in our future. They include: \$500 million to extend the Head Start program into the summer months and create 50,000 jobs for the summer; \$200 million to increase HIV and AIDS treatment services through the Ryan White Act; \$300 million to dramatically improve access to early childhood immunization—half of the 2-year-olds in this country do not receive the necessary immunization against preventable childhood diseases; \$302 million to improve service and efficiency in our disability and other Social Security Administration programs; and \$9 million to advance medical information technology at the National Institutes of Health.

This portion of the budget package is reflective of a new philosophy that the Clinton administration brings to government. Aggressive deficit reduction combined with investment and programs that create jobs, give our children a better chance in life, improve the Nation's health, and bring greater government efficiency to our customers, the American people.

The President's plan also includes several long-term investments totaling \$29.1 billion spread over the next 4 years.

One of these investments is in Head Start, the pre-school program that enables disadvantaged children to begin school ready to learn. We propose to expand Head Start by \$10 billion over the next 4 years.

We recognize that this represents a significant increase, and we are confident that our investment is a wise one. Head Start works. The program has a proven record of enriching lives; indeed, of preserving lives and of saving several dollars in long-term expenditures for every one dollar of short-term program costs. Because we are proposing to deepen our investment in Head Start, it is critical that we pay close attention to the strain expansion could play on the program's quality and management capability, as well as on our grantees. You may be aware that our Inspector General's Office will soon release two reports indicating that the level of Head Start performance, as measured by key indicators, was considerably lower than those reported by grantees. However, due to the limitations of the study, the causes and extent of these problems are not clear. Therefore, I have directed my staff to review the program carefully with these reports in mind. We are fully committed to ensuring that Head Start is a high quality and well-managed program.

In addition, we are committed to working closely with Secretary Riley at the Department of Education in an effort to coordinate our Head Start activities with the Chapter I early primary education program. We believe that vigorous coordination with the Chapter I program will inhibit deterioration of the progress that Head Start fosters and will allow us to continue beyond the Head Start class-

room the leg up into the world that Head Start provides to many disadvantaged children.

To return to other investment items, we also have requested an additional \$1.2 billion in 1994 for AIDS, women's health research and other public health initiatives. Our proposal is to use these funds to address a range of pressing public health concerns with a strong emphasis on preventive health care. We plan to: bring primary care prevention services to underserved populations; fight the spread of TB, a 19th century disease that threatens to return in full force in the 1990's; enhance the non-Ryan White Act, HIV and AIDS research and prevention activities; expand health service to women—including family planning; increase substance abuse prevention activities all across this country, especially among young women; and stop teenagers from lighting their first cigarette or from continuing to smoke when they ought to know better.

Indeed, in order to further strengthen families, the President intends to allocate \$1.1 billion over the next 4 years in the areas of parenting and family support. We also intend to fully fund the Ryan White Act with \$1.2 billion over the next 4 years.

Other investments which total \$5.6 billion over the next 4 years will increase funding for child care and development block grants, continue the National Institutes of Health and the Social Security Administration's computer and related technology improvements, create additional substance abuse treatment capacity, and help alleviate the impact of the energy tax on low income households beginning in 1995.

From time to time during the President's first month in office, it was suggested that the administration was forgetting about welfare reform. I want to reiterate that there is no truth whatsoever to that charge.

The fact is that we had to undertake health care reform first. A new health care system is a precondition for ending welfare as we know it—there are no two ways about it. In the near future, the President will announce the formation of a task force on welfare reform. I can assure you that there will be adequate funding for implementing welfare reform. The specific details await the work of the task force.

We all know that our program of investing in America's future must be coupled with a strong commitment to bringing down the deficit. In order to do that, everyone will have to contribute their fair share—but only their fair share. It is that simple.

The President set the tone by cutting his White House staff by 25 percent and by calling for reduction throughout the Federal Government. At HHS, we will reduce FTEs and administrative overhead in an effort to comply with the President's commitment. In fiscal year 1994, there will be no pay or locality pay raises for Federal employees. Reconfigured locality pay and annual increases will go into effect in fiscal year 1995, both of which will save \$1.2 billion in the fiscal years 1994 to 1997. Additional savings in 1994 to 1997 will be achieved through holding certain programs to fiscal year 1993 levels.

As you know, our plan includes a proposal that would increase the percentage of taxable social security benefits for individuals who are already taxed, but it does not increase the number of bene-

ficiaries subject to taxation. This proposal would move the treatment of social security benefits towards that of private pensions.

As you also know, medicare and medicaid are expected to account for 50 percent of the growth in Federal spending over the next 4 years. The reality is that any attempt to reduce the deficit must include curbing the rapid growth of these programs, as well as controlling the soaring costs of health care in general. Let me make it clear that the President's program will slow the growth in medicare costs from 12.3 percent to 10.5 percent per year.

Our cost containment measures include slowing estimated base line spending, controlling yearly program increases, and permanently extending money saving legislative provisions that would otherwise have expired. At the same time, our proposals provide incentives for efficiency and streamlining, for enhanced consistency and uniformity in the administration of the programs, and for the development of primary care services. Our goal with these measures is not only to reduce spending while preserving benefits, but improving and simplifying the delivery of health care services to medicare and medicaid recipients in the process.

Most of the savings will come from limits and/or reductions on fees paid to hospitals, doctors, laboratories and drug companies. In medicare, the biggest savings will come from: reducing the hospital update to the rate of increase in the hospital market basket minus 1 percent in 1994 and 1995; switching hospitals to the calendar year update cycle used in most of the rest of medicare; putting the SMI premium on a path that maintains a reasonable share of beneficiary program costs; and reducing laboratory payment rates.

In medicaid, the biggest savings will come from amending legislation that; as a result of technical error, would have required States to provide personal care services both inside and outside of an individual's home after 1994. While we would eliminate this very costly mandate on the States, we could continue to permit States to offer these benefits at their option. We will also achieve savings through permitting States to establish drug formularies and by setting medicaid and AFDC administrative matches to the States at 50 percent. Food Stamps' administrative costs would be similarly treated.

We will continue our cooperative efforts with the Internal Revenue Service to identify cases where medicare made a mistaken primary payment for services when the beneficiary had other primary insurance. This will be accomplished by extending the IRS, SSA, HCFA data match to allow the use of tax information for the 1996 through 1998 tax years. In addition, we will coordinate medicare and medicaid third party liability activities with the activities of all of the other Federal agencies managing health insurance programs, including Veterans Affairs, CHAMPUS and others—to establish a central clearinghouse to identify third party liability cases, and to assist in efforts to recover mistaken primary payments.

The President sees the medicare and medicaid reductions as stop-gap measures—helping to control costs until the entire health care system is reformed. But we also believe that our overall deficit reduction proposal is fundamentally balanced and fair; it reduces costs while promoting efficiency and asking all Americans to contribute.

By jump-starting the economy, investing in our future, and reducing the deficit, President Clinton's historic economic package provides a foundation for national prosperity. Our impending health care reform package will build upon that foundation.

I look forward to working with you on this budget proposal, on health care reform, on welfare reform, and on all the subsequent initiatives to improve the every-day lives of all Americans.

Thank you. I apologize for the lengthy statement, but it is a big Department, and I will be happy to answer any questions you may have.

[The prepared statement of Hon. Donna E. Shalala follows:]

PREPARED STATEMENT OF HON. DONNA E. SHALALA, SECRETARY OF HEALTH AND HUMAN SERVICES

Mr. Chairman, members of the Committee, two weeks ago President Clinton presented to Congress and the American people a bold plan to create jobs and invest in our future, while also cutting the deficit by at least \$140 billion over the next four years. I am very pleased to appear before you today to discuss some of the ways in which the President's package enhances the mission of the Department of Health and Human Services.

Right now, we have an historic opportunity to protect America's future by reducing the deficit and investing wisely in the American people. We believe that we must do both, and we must act quickly.

A case in point is our central challenge of controlling health care costs. The President knows that if we do not enact comprehensive health care reform, we will never lower the deficit or provide all American families with a health care system that works. As a member of the Task Force on Health Care Reform, chaired by Mrs. Clinton, I can tell you that we have been working virtually around the clock to develop a plan that fulfills both of these goals. The plan, which we have promised in May, will include mechanisms to control costs in the private sector, in addition to the Medicare and Medicaid cost control measures.

I know that you are all very concerned about the Medicare and Medicaid reductions presented recently. I want to emphasize that these budget reductions are a down-payment on our overall program to reform the health care system and to control public and private health care costs. I also want to emphasize that we are proposing to reduce the rate of increase in Medicare and Medicaid spending, not to reduce spending for either program below existing levels.

It is very important to put these reductions in the context of the broader effort to eliminate waste in all areas within the health care system. As the health care system is reformed, we expect to be able to maintain quality and realize other public sector savings. For example, when we move to a system that emphasizes prevention and primary care, the public sector should save money. More importantly, as we put people back to work and revitalize the economy, fewer people will be relying on Medicaid coverage. Likewise, as we extend coverage to all workers, Medicaid costs should be reduced. The bottom line is that we think we can maintain quality and make the system more efficient as we achieve savings in the health care system down the road.

STIMULUS

As a first step towards revitalizing the economy, President Clinton has sent the Congress a fiscal year 1993 Supplemental Budget Request that includes \$1.3 billion for HHS programs to create new jobs and enhance services that are essential to the American people. These budget items should be viewed as an immediate investment in America's future. They include: \$500 million to extend the Head Start program into the summer months and create 50,000 jobs for the summer; \$200 million to increase HIV and AIDS treatment services through the Ryan White Act; \$300 million to dramatically improve access to early childhood immunization—half of the two year-olds in this country do not receive the necessary immunization against preventable childhood diseases; \$302 million to improve service and efficiency in our disability and other Social Security Administration programs; and \$9 million to advance medical information technology at the National Institutes of Health.

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with investment in programs that create jobs, give our children a better chance in life, improve the Nation's health, and bring greater government efficiency to our customers—the American people.

INVESTMENT

The President's plan also includes several long-term investments totaling \$29.1 billion, spread over the next four years.

One of these investments is in Head Start, the pre-school program that enables disadvantaged children to begin school ready to learn. We propose to expand Head Start by \$10 billion over the next four years.

We recognize that this represents a significant increase, and we are confident that our investment is a wise one. Head Start works. The program has a proven record of enriching lives—indeed, of preserving lives—and of saving several dollars in long-term expenditures for every one dollar of short-term program costs.

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In addition, I am committed to working closely with Secretary Riley at the Department of Education in an effort to coordinate our Head Start activities with the Chapter 1 early primary education program. We believe that vigorous coordination with the Chapter 1 program will inhibit deterioration of the progress that Head Start fosters and will allow us to continue beyond the Head Start classroom the leg up into the world that Head Start provides to many disadvantaged children.

To return to other investment items, we also have requested an additional \$12 billion in 1994 for AIDS, Women's Health, Research, and other Public Health Initiatives. Our proposal is to use these funds to address a range of pressing public health concerns, with a strong emphasis on preventive health care. We plan to: Bring primary care prevention services to underserved populations; fight the spread of TB, a disease that threatens to return in full force in the 1990's; enhance non-Ryan White Act HIV and AIDS research and prevention activities; expand health services to women (including family planning); increase substance abuse prevention activities all across America, especially among young women; and stop teenagers from lighting their first cigarette, or from continuing to smoke when they ought to know better.

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DEFICIT REDUCTION

We all know that our program of investing in America's future must be coupled with a strong commitment to bringing down the deficit. In order to do that, everyone will have to contribute their fair share—but only their fair share. It's that simple.

The President set the tone by cutting his White House staff by 25 percent and by calling for reductions throughout the Federal Government. At HHS, we will reduce

FTEs and administrative overhead in an effort to comply with the President's commitment. In fiscal year 1994, there will be no pay or locality pay raises for Federal employees. Reconfigured locality pay and annual increases will go into effect in fiscal year 1995, both of which will save \$1.2 billion in fiscal year 1994-1997. Additional savings in 1994-1997 will be achieved through holding certain programs to fiscal year 1993 levels.

As you know, our plan includes a proposal that would increase the percentage of taxable Social Security benefits for individuals who are already taxed, but it does not increase the number of beneficiaries subject to taxation. This proposal would move the treatment of Social Security benefits toward that of private pensions.

CONTAINING HEALTH CARE COSTS

As you all know, Medicare and Medicaid are expected to account for 50 percent of the growth in Federal spending in the next four years. The reality is that any attempt to reduce the deficit must include curbing the rapid growth of these programs as well as controlling the soaring cost of health care in general. Let me make it clear that the President's Program will slow the growth in Medicare costs from 13 percent to 11 percent per year.

Our cost containment measures include slowing estimated baseline spending, controlling yearly program increases, and permanently extending money-saving legislative provisions that would otherwise have expired. At the same time, our proposals provide incentives for efficiency and streamlining, for enhanced consistency and uniformity in the administration of the programs, and for the development of primary care services. Our goal with these measures is not only to reduce spending while preserving benefits, but improving and simplifying the delivery of health care services to Medicare and Medicaid recipients in the process.

Most of the savings will come from limits and/or reductions on fees paid to hospitals, doctors, laboratories, and drug companies. In Medicare, the biggest savings will come from: Reducing the hospital update to the rate of increase in the hospital market basket minus 1 percent in 1994 and 1995; switching hospitals to the calendar year update cycle used in most of the rest of Medicare; putting the SMI premium on a path that maintains a reasonable share of beneficiary program costs; and reducing laboratory payment rates.

In Medicaid, the biggest savings will come from amending legislation that, as a result of a technical error, would have required States to provide personal care service both inside and outside of an individual's home after 1994. While we would eliminate this very costly mandate on the States, we would continue to permit States to offer these benefits at their option. We'll also achieve savings through permitting States to establish drug formularies and by setting Medicaid and AFDC administrative matches to States at 50 percent. (Food Stamps' administrative costs would be similarly treated.)

We will continue our cooperative efforts with the Internal Revenue Service (IRS) to identify cases where Medicare made a mistaken primary payment for services when the beneficiary had other primary insurance. This will be accomplished by extending the IRS/SSA/HCFR data match allowing use of tax information for the 1996 through 1998 tax years. In addition, we will coordinate Medicare and Medicaid third party liability activities with the activities of all of the other Federal agencies managing health insurance programs—including Veterans Affairs, CHAMPUS, and others—to establish a central clearing house to identify third party liability cases and assist in efforts to recover mistaken primary payments.

The President sees the Medicare and Medicaid reductions as stop-gap measures—helping to control costs until the entire health care system is reformed. But we also believe that our overall deficit reduction proposal is fundamentally balanced and fair; it reduces costs while promoting efficiency and asking all Americans to contribute.

CONCLUSION

By jumpstarting the economy, investing in our future, and reducing the deficit, President Clinton's historic economic package provides a foundation for national prosperity. Our impending health care reform package will build upon that foundation.

I look forward to working with you on this Budget proposal, on health care reform, on welfare reform, and on all subsequent initiatives to improve the everyday lives of all Americans. Thank you. I will be happy to answer any questions you have.

Chairman SABO. Thank you for your excellent statement.

I am just curious about one thing in your immunization program, and I think it is absolutely essential that we immunize kids in this country. Is part of the program an outreach program? How do you deal with that?

As I regularly visit with people in my local community, it is clear that there are hundreds or thousands of kids who are eligible for medicaid, and therefore eligible to be immunized under the program who simply aren't getting immunized, and somehow they fall out of the system and it doesn't get done.

My local counties moved to a managed care system; they think they are increasing the percentage of kids immunized. But still, the numbers who are not are just totally unacceptable. I am just curious about how you deal with that part of the problem.

Secretary SHALALA. Mr. Chairman, you are exactly right, that the fundamental problem with immunization is an inefficient and ineffective infrastructure. We need an improved delivery system to be able to provide outreach, to extend the hours of clinics, and to get the message out to parents that 80 percent of young children should be immunized before 2.

We need to re-evaluate the liability issue, because there is a piece of legislation that has run out and doctors feel uncomfortable about the risks. Our bill will deal with the liability issue. There are a number of things that need to take place.

Fundamentally, this would be included in the stimulus recommendation of \$300 million. We need to hire the outreach specialists to reorganize a much more sophisticated way to inform parents. But parents need to take more responsibility themselves. They need to be told about that responsibility, when the kids are born, so all these pieces will be put together.

We have included resources for a tracking system. This country does not have a tracking system that is systematic across the country so that parents, when they come in, are not only informed about the shots, but informed about the booster shots so that the hospitals, the clinics, the primary care physicians, or the private physicians can follow these young people and inform them of the shots they need and when they need them. It is pretty complicated.

All the pieces need to be put in place. That is the way we are going to extend the program and increase the number of kids served by the program.

There are Third World countries that have done better than we have. In this hemisphere, only Bolivia and Haiti have lower immunization rates than the United States, and that is just a scandal. This situation reflects poorly and demonstrates a lack of availability of vaccines, our not having a functional structure in place to get the job done, and not making immunization a national priority.

Chairman SABO. Mr. Kolbe?

Mr. KOLBE. Thank you, Mr. Chairman.

Welcome, Secretary Shalala. Let me follow-up to that.

Chairman SABO. Excuse me, before you start, I understand you need to leave by about 12:30; just so the committee members have that in mind.

Proceed.

Mr. KOLBE. Thank you. I didn't intend to ask my questions until 12:30.

Let me follow up on the immunization question. I was glad to hear you mention the question of liability. What is the basic problem we have in this country with immunizations? Why are we so poor when it comes to ranking with other Western Hemisphere countries?

It is certainly not that we are poorer on a per capita basis. It is certainly not that we don't have drug companies. What is the basic problem we have got?

Secretary SHALALA. Well, it is all of the above.

The fundamental problem is that we have designed a health care system that does not have prevention as its powerful beginning. We have not put our resources initially in a prevention program that would include a strong commitment to immunization. Our health care system puts more resources at the end of the process than it does at the beginning of the process. We have not had in our public health clinics, facilities, or with private pediatricians, a system in place that focuses on the beginning of life. You see this reflected in low birth weight statistics that in some places in this country, like this city, look like Third World countries. I would put both the resources, the attention, and the structure on the front end.

Mr. KOLBE. Well, I appreciate those comments, because I certainly agree that the structure and the question of liability are issues that have to be addressed. Unfortunately, much of what we have been hearing recently has suggested it is the big bad drug companies that are totally responsible for the fact that we do not have immunizations taking place in our inner cities, and I think that is a serious misreading of the problem that we have got.

When you talked about the medicare or the savings as a down payment on the overall reform, are you referring to the reductions, the capping of some of the payments to hospitals and doctors, physicians this year?

Secretary SHALALA. What I am saying is that—yes, exactly that. Let me just simply say, yes.

Mr. KOLBE. Do you not see that this is going to cause more of a problem than we have certainly seen, and that is just cost-shifting?

Secretary SHALALA. Not necessarily. Cost-shifting assumes that there is someone on the private side that is prepared to pick up the bill, and what we have seen, Congressman, is that we are now at the point where the private sector, including insurance and other companies are getting to the point where their health care costs have increased significantly. So while there may be some cost-shifting, it is only because someone is prepared to pick up the bill.

If I might repeat what I said in my testimony, and that is that all we are trying to do is to slow down the increase, and all of these institutions will continue to get a 10.5 percent increase. That is a substantial increase, compared to the cost of living increase. While I understand that many hospitals have built-in efficiencies, it is really hard for any of us to understand why someone can't live within a 10.5 percent increase.

Mr. KOLBE. I understand that. And I think it is at the heart of the problem. The question is what is the solution to that problem?

Secretary SHALALA. The solution is not tinkering with the system, which is what we are doing here. The solution is fundamental reform.

Mr. KOLBE. That is right. This is more tinkering. Should I characterize the answer you just gave me though as suggesting that cost-shifting has not taken place?

Secretary SHALALA. No. I mean, first of all, we haven't had a chance to slow down. We need to be able to measure progress. We will know when cost-shifting has taken place when the public system has squeezed down and the cost has shifted to the private sector—

Mr. KOLBE. But this will not cause additional shifting?

Secretary SHALALA. We have seen some slowing down in terms of private spending, too. It doesn't have to result in cost-shifting. What has happened in the past has been cost-shifting, but we are getting to the point where there is a limit to the degree of cost-shifting that can occur. This means that people will need to build in efficiencies.

Mr. KOLBE. In terms of your fundamental reforms that you are talking about for the long term, have you given any thought to the idea—we have a long-term plan, as you know, dating from 1983 in Social Security reform to raise the retirement age. Has there been any thought given to the idea of raising the medicare, the eligibility for medicare benefits and what the savings that might come from that would be?

Secretary SHALALA. I think what the President said that everything is on the table and everything is being priced. The answer is: everything is being discussed and everything is being priced.

Mr. KOLBE. Let me just ask one last question. You made one very brief reference to welfare reform. You said it is not true that we are backing away or we are forgetting about welfare reform. Would you care to take a little more time to elaborate on that as to what your vision of welfare reform might be?

Secretary SHALALA. Well, the President has talked about ending welfare as we now know it—building on what the Congress did in the last few years—moving welfare from a program that continues dependency to a more transitional program in which the expectations of people are changed. At the front end, we would invest in training, in education, and have a much shorter period of time in which people stay on the welfare program.

This philosophy has been discussed in this body. People have changed their minds about the nature of welfare, and clearly, it was discussed in the campaign, the details of which are to be worked out as part of the task force.

Mr. KOLBE. Well, I have a lot that I would like to get into in that area, but I will defer for this—at this moment.

Thank you, Dr. Shalala.

Secretary SHALALA. You are welcome.

Chairman SABO. Mr. Kildee.

Mr. KILDEE. Thank you, Mr. Chairman.

Madam Secretary, in 1990, my bill signed by President Bush re-authorized Head Start with full funding by 1994-1995, and it provided funding for 100 percent of the 3-year-olds and 4-year-olds, and about one-third of the 5-year-olds, with the assumption there would

be other programs and kindergarten at that age. How many and what children are being counted in President Clinton's estimate for full funding by 1999?

Secretary SHALALA. I think we are calculating 1.4 million children, and we are talking about three and 4-year-olds, and probably a percentage of 5-year-olds. What we are trying to budget for is the number of children that we are projecting will be enrolled—so it is a probability calculation.

In addition to that, we are assuming that health care reform and the earned income tax credit will change the income status of a number of families and children. So it is basically a calculation.

Mr. KILDEE. And that calculation can be adjusted if it needs to be.

Secretary SHALALA. Yes, absolutely. We want to make sure that when we say "full funding," we mean full funding. But we also don't want to overestimate the number of children that might participate.

This is on the low side.

Mr. KILDEE. So you are hoping that poverty is reduced so the eligibility will be somewhat less than what we had estimated in 1990?

Secretary SHALALA. I want to be a little careful about that. I assume a number of things will take place between now and when the program expands and one of them is the impact of the earned income tax credit.

The other is the impact of welfare—of health reform, which will, we hope, take a certain number of families off the welfare rolls, because they will have their health care coverage and be able to go to work. There are some factors that make calculations hard to predict.

Mr. KILDEE. Okay. I appreciate your answer, and I want to work with you as we move through these years to see what can be done.

Secretary SHALALA. Thank you very much, Congressman.

Chairman SABO. Mr. Shays?

Mr. SHAYS. Nice to see you and nice to have you here.

The first time you appeared before me was in 1975 when you came to the statehouse in Connecticut and worked on our school financing, and you did a terrific job.

Secretary SHALALA. That is exactly right.

Mr. SHAYS. I am hopeful that you will do a good job in your new position. We in the Budget Committee have to wrestle with the macro figures of the deficit and overall spending, overall tax increases and so on. We are looking at a package that basically, when we really analyze it, cuts the deficit in the next 4 years about \$300 billion, \$207 in that tax increase in 1993 being of spending cuts. And we are looking at another \$25 billion of buying short-term—having short-term interest rates rather than long-term bonds, which some people say is a dicey game.

So, basically, we are looking at about \$325 billion. We don't think that is enough. And I don't think even the administration feels it is enough.

Now, what I am wrestling with is the whole idea that we pass this package without having a handle on health care costs. It is my understanding the administration would like to have health care costs, the total amount spent on health care not go up, but obvious-

ly the mix of who pays will change, and obviously Government is going to be more involved.

I guess the question is, what is the administration looking at? What are the options they are looking at to finance the health care package?

Secretary SHALALA. Well, Congressman, it is a little difficult for me to answer that without knowing what the health care package is. Since the design of the health reform package has not been completed, the kinds of financing mechanisms, and the kinds of anticipated savings are hard to project. I don't want to dodge your question, because I am going to be in here in a couple of months testifying in detail about the financing package.

But let me simply say that everything that has been thought about or mentioned is being considered, but that there will be some principles. There will have to be a fairness dimension. We want to produce savings out of the system.

One of the reasons I described the medicare and medicaid savings as a down payment is because all we are doing there is tinkering around the edges to get a deficit contribution when we know darn well that there are some fundamental things that we can change, but those things ought to be part of health care reform. When we complete the package, we will need to specify financing options. However, we should think about everything that has ever been recommended, and that includes obviously recapture mechanisms and perhaps a different way in which one produces service delivery or a different sharing of the costs.

Mr. SHAYS. I would just like to pursue this a little bit more, and I honestly don't want to put you on the spot in things that you don't know about, but there are some general principles that we must be following. We are looking to make health care universal; is that correct?

Secretary SHALALA. Yes.

Mr. SHAYS. We are looking to have cost containment; is that correct?

Secretary SHALALA. Yes.

Mr. SHAYS. Okay. Now, there are ways that we can save money to the Treasury by, for instance, having basic health care be deductible, but anything that is above basic not be deductible. Is that one of the things we are looking at?

Secretary SHALALA. There are a variety of things you can look at as part of this effort.

Mr. SHAYS. The challenge I have, and I think my colleagues have, as well, when I have my community meetings this month, constituents are going to come to me and say, you know, I don't mind some of the taxes, if not even all of them, I am willing to make sacrifice, I know I am going to hear that. But they are going to say, look me in the face, Congressman, and promise me it is going to go for deficit reduction.

Even in your package you point out there is a stimulus package and an investment package, there is a lot of new spending in our program, so I can't say to them this is going for deficit reduction, some is going for new programs. But then they are going to say promise me you are not going to come back.

One of my promises, I don't think the \$325 billion cuts enough from the deficit, so I think we are going to come back for that. But then I am going to be coming back again and saying, you know, we have health care. And I think some people think the health care package is already in his proposal. I really believe that.

I think constituents think, because the President mentioned it, he has already covered it. And that is kind of the scary thing about what I view as our challenge.

Can I just ask one last question with my green light still there? Do you anticipate that taxes are going to go up significantly, incrementally? Do you anticipate it is going to be phased in over time, or what?

Secretary SHALALA. I just answer that question, Congressman, because I don't know what the package is. I can tell you that we are also going to have to look, during that period, at more deficit reduction as part of the way to put together—

Mr. SHAYS. You mean more spending cuts?

Secretary SHALALA. Yes. The financing package for the new health care reform is going to have to also reflect what we are going to cut as part of the process. That is why I described these initial cuts from the Department as simply a down payment, and obviously, there are some other things we can do.

And might I add, Congressman, that your questions are as sharp as they were more than a decade ago on a complex financing question.

Mr. SHAYS. You make me laugh, but I was just thinking, you can't answer the question, but when I go to my constituents, they are not going to allow me to get away with that. They are going to ask me the same questions.

Secretary SHALALA. I have been out, too, and people have been asking me the questions. I have also been asking them what is it that they expect to see, and lots of people have said, what we want is peace of mind at the end of this process. Hopefully the whole package will do that for people. My sense, as it is yours, is that people are open. They are worried, and we need to get back as fast as we can, so that we can answer some of these questions directly.

Mr. SHAYS. Thank you very much.

Chairman SABO. Mr. Johnston?

Mr. JOHNSTON. No questions.

Chairman SABO. Mrs. Mink?

Mrs. MINK. Thank you very much. Welcome to the committee, Madam Secretary.

Secretary SHALALA. Thank you.

Mrs. MINK. I certainly applaud the initiatives that you have described here this morning, which I consider as essential to investment in our children, and I applaud you for embarking on it as a first step of your investment in the future.

There is one item that came to my attention as I looked over the details that we have been given for the 4-year projections of the budget, and you mentioned some of it this morning. It has to do with one item which is listed as \$1.2 billion in increases in an area called women's health, research, public policy, AIDS and so forth.

In defining it in your statement this morning, you limited your discussion to women's health as services, as an extension of serv-

ices. I think that in the 2 years that I have been back here, the Women's Caucus has been concentrating on the area of prevention, which is a theme of this administration, and we are very much concerned that not enough emphasis is put on the research end.

One item in particular that I have been working on for a couple of years now is ovarian cancer, where we are desperately seeking for some answers as to an early detection test. It is not so much services to the 12,000 women who die each year from ovarian cancer, but the necessity of investing monies to prevent this disease from striking women in the future, as has been pointed out in the whole area of breast cancer, and the fact that women have been neglected by NIH in the past, and have not been included in tests and research activities.

So my question is, in this \$1.2 billion which you have identified as a renewed effort on the part of the administration, is there consideration being given to the research end for women's illnesses? We need some reassurance in that regard.

Secretary SHALALA. The answer is yes, Congresswoman. The new investments cover the clinical trials at the National Institutes of Health, which focus on women's health, and include the most common causes of death, disability, and impairment among women—cardiovascular disease, cervical and ovarian cancer and osteoporosis. In 1993, for example, NIH will spend over \$500 million in research specifically on women's health.

In addition, the budget includes the transfer of the breast cancer research funds from the Defense Department to NIH, which adds \$216 million, and that is my kind of increase, when you can take from the Defense Department and put it in HHS. There's more money for CDC to look at things like domestic violence.

As I said at one of my previous hearings, though, these are add-on investments. I believe that the Department can no longer treat issues like women's health as add-ons—as additional incremental programs. Rather, women's diseases have to be treated systemically in the Department. They have to be taken as seriously as the diseases that mainly affect men.

What I am looking for under the new Assistant Secretary for Health is a much more fundamental change in thinking and in culture about these issues. While I think that we have been able to add some resources, it is a fundamental change in thinking that we are looking for over the next few years.

Mrs. MINK. I certainly compliment you on that statement, and we are going to work with you very hard in trying to implement some of these policies that we have been working on.

My second question has to do with your strengthened relationship with Secretary Riley, and also, I assume, with Secretary Reich in the Labor Department. The focus on earned income credit and its connection with the welfare reform situation brings to light an increased need for attention in the child care area. If we are to get working couples, women in particular, out there in the market, uplifting the family income and being able to improve the quality of life, we are going to need to find extra efforts in the child care area.

Could you comment in terms of your presentation this morning exactly what emphasis and how you are going to go about meeting this very serious national problem?

Secretary SHALALA. Secretary Riley, Secretary Reich, and I have already talked about the kind of team work that we need to make these programs fit together. I made reference to coordinated efforts with Secretary Riley on his Chapter I summer preschool program and the Head Start summer program. These programs need to be designed for people that are going to go to work.

If there is anything fundamental in what the President has said about the reform of welfare, it is really the reform of American attitudes about what government should do. The President's opinion is that heads of households should not have to bring up their children in poverty if they get up in the morning and go to work.

By fully funding Head Start, we are talking about making it a full year, full day program, which supports working families. By fitting Chapter I's preschool program during the summer together with what we are going to do in the Head Start program, we help families who obviously can't take time away from their jobs during the summer. We also help those employees, often low income, who have summer employment. In the Head Start program, we are going to fund existing programs during the summer. Many of those people go on unemployment during that period of time, and then return to work in the fall.

This is an emphasis on supporting people who get up in the morning and go to work, and that supports families. It helps to lift people out of poverty. You add to that the earned income tax credit which is very much targeted to working families—to lifting them above the poverty line, and you begin to see how we are putting this package together with what we hope is the evolving attitude of this country about how programs should support families, and what our commitment is—we are committed to working Americans.

Mr. BERMAN [presiding]. Mr. Smith of Texas?

Mr. SMITH OF TEXAS. Thank you, Mr. Chairman.

Mr. BERMAN. Ms. Snowe?

Ms. SNOWE. Thank you, Mr. Chairman.

Welcome, Secretary Shalala. It is nice to have you before our committee.

One of the issues, and I know Congresswoman Mink mentioned it to you earlier, about testimony that was presented to the Budget Committee several weeks ago from the General Accounting Office on management within the health care financing agency. I think we are all concerned, obviously, about the skyrocketing cost of health care and the fastest growing component of the Federal budget is medicare and medicaid.

And in their report to the committee, they mention, and I will read it to you, that the Health Care Financing Agency that oversees medicare does not have an effective national strategy to protect a program from making erroneous or wasteful payments. Second, budget constraints have led to the under-funding of the types of payment controls that prevent or detect losses due to waste, fraud and abuse.

It goes on to detail a number of reimbursements under the medicare program in the millions and in the billions of dollars, some of which have not been recovered; others that have been recovered. But the fact of the matter is there is no system in place to date within the Health Care Financing Agency that can identify these problems, prevent erroneous billing, prevent erroneous reimbursement, and also identifying, you know, reimbursement in areas where all of a sudden they are having a number of increases in an area.

For example, they mention ambulance services are skyrocketing at one point, but the system does not identify this unusual and unprecedented growth in one area for reimbursements, such as ambulance services. They weren't able to detect that, because they don't have a system in place.

I guess the point is, given the hundreds of billions of dollars that we are spending in health care, and even GAO has said that 10 percent of our health care expenditures goes to unnecessary expenditures and duplication, unnecessary procedures and so on. I think that we have to do everything that we can to put a system in place that correctly identifies these problems, so that we prevent erroneous billing, or fraudulent expenditures, which has occurred under medicare. And even to date where private payers ought to be paying for some of these procedures, we have \$2 billion worth of claims that have not been recovered from private insurers.

Secretary SHALALA. Yes, Congresswoman. We actually have put additional funding in the 1993 budget to try to be responsive to the GAO report. We are going to place a new set of experienced managers in HCFA.

You were mild in your criticisms of what HCFA hasn't done, compared to the President of the United States, who has chewed on my ear about the inadequacies in that program. We are putting new systems in place. We are putting new auditors in to respond to that; and there is no question that there is money to be saved on erroneous payments in those programs.

Fundamentally what we have done is designed a program over the years which is hard to audit, hard to manage and hard to control. One of the things that we need to do is not only to get the auditors in place and make it clear what the rules are, but we need to go through and see if there are some simplifications and some systems we can put in place, including accounting procedures, that make it easier for people that are completing the paperwork.

It is a highly complex program. I worked for a Cabinet officer that said that all the geniuses in Washington designed these brilliant programs that couldn't be administered by ordinary people. I can assure you we are going to go through the GAO reports, put more systems in place, and put people in place. Fundamentally, we have to see whether we have some systemic flaws in these programs or whether we are prepared to tolerate a certain amount of misspending because of the design of the programs. While I will give the usual secretarial assurance that we will cut down on some of the things that have been reported, I think that we need to take a more systemic look at what we are doing and why we are doing it.

As we try to control costs, all I can do is squeeze around the edges because of the way in which we have designed the programs. The programs are designed to lend themselves to this kind of gaming of the system. We have to go back and ask some tougher questions about the programs. One of the reasons we are moving into health care reform is because we have created programs that are both hard to administer, and fundamentally hard to control in terms of growing costs.

Ms. SNOWE. Well, I hope that this would be a major priority, and certainly for whoever is the new director of the health care financing agency, because, clearly, I think the American taxpayer does deserve to ensure that their money is being spent efficiently and effectively.

In the GAO report, in fact, it indicated that for every \$12—for every \$12—you save \$12 for every dollar that is spent in the program for safeguarding the program. So we obviously get a return if we make a wise investment.

And I know that the Health Care Financing Agency in the past has tried to adopt a new system. But, clearly, even in the areas that have been identified and reidentified, those problems have not been corrected. And so I would hope that we could get into a position where we are properly safeguarding the program and the American taxpayers' money.

So I would hope that that would be a major priority of your Department as you are looking at this report and other reports and suggestions for improving the system, even if it means more auditors and whatever the case may be, because ultimately, it will save money.

One other area: the medicaid program. That has obviously increased dramatically over the last few years, and in particular, 1992, the costs have risen about 25 percent. To what do you attribute the growth, the extraordinary growth in the medicaid program, and what can we begin to do to address that program, perhaps give more flexibility to the States in administering the program. I would like to hear your comments on it, because obviously, this is a major reason why we are seeing health care costs rise in the Federal Government.

Secretary SHALALA. There are a number of reasons why the costs in medicaid have expanded. One is simply expansion of the program itself. We have added new requirements and new coverage to the medicaid program. These are things that we care very much about—pregnant women and children, although I wouldn't see that necessarily as a negative. Also, taxes and donations—State-used provider-specific taxes to increase the amount of their match obviously goes into the equation in expanding costs.

The slow economic growth has meant that more people have come into the system, and it is difficult for people to get off welfare roles when there has been slow economic growth.

It is, frankly, all of the above in terms of why those costs have gone up so fast.

Ms. SNOWE. Well, I think it has obviously been a hardship for the States in terms of these mandates under medicaid. And as you mentioned about pregnant women and children, obviously that is a priority. But the program is obviously uneven across this country

in terms of the optional services provided by each State. In fact, Dr. Reischauer of CBO indicated that in fact in many States the program is better than private health insurance coverage—

Secretary SHALALA. Yes.

Ms. SNOWE. [continuing] with no co-insurance on the part of the beneficiaries.

Are we encouraging increased utilization, because they don't pay anything even though they are a medicaid beneficiary?

Secretary SHALALA. Well, let me say that the people on medicaid are obviously quite poor, but it goes back to fundamental health care reform and welfare reform.

We have designed a system in this country in which you can get what I would consider a very good health care plan, medicaid, if you don't work. If you stay in the welfare system, you get medicaid. If you get off and take a job in which your employer—particularly if you are underprepared for work—simply can't afford health care, as is true for 37 million Americans and their families—you don't get health coverage.

We have done something that is more than adequate. Medicaid is a good, strong program for the poorest Americans, which we should do. I don't want to deny them that benefit. But simultaneously large numbers of people aren't covered. Adding an incentive to the medicaid program for people to pay will not do it. It is getting more jobs and having a health care plan that covers larger numbers of people with a basic benefit that will help.

I don't see any way around the growth of medicaid unless we fundamentally change the health care system, and more importantly, put some fairness into it.

Ms. SNOWE. Thank you.

Mr. BERMAN. The time of the gentlelady has expired.

Mr. Orton?

Mr. ORTON. Thank you, Mr. Chairman. And welcome, Secretary Shalala. It is a pleasure to welcome you here and to hear from you.

In my district—if you are not aware, I come from Utah, a very rural district, physicians report to me that frequently as much as 60 percent of their patient load is medicare and medicaid individuals. Partly because of the restrictions which we have on reimbursements, and partly because of regional discrepancies in reimbursements, many of them find it virtually impossible to operate or to practice in those areas; and in fact, many of my constituents, in rural areas and other rural areas around the country, have severe shortages of primary care physicians.

The National Health Care Service Corps has helped to address this somewhat, but clearly have not eliminated the problem. I am wondering what you and the new administration propose to start resolving these shortages. Do you favor programs which would encourage the native populations remaining there and becoming trained as physicians? Do you support programs which give incentives for trained physicians to go into rural areas?

I note with interest the President's recommendations on encouraging Service to America. I am wondering if you could give us some indication as to what your policies are going to be to encourage rural primary care.

Secretary SHALALA. We believe that health care reform has to directly address rural primary care. In the stimulus package, there are some elements as well. When we made cuts, for instance, we were very sensitive to rural areas, making sure that we made adjustments, for instance, for smaller hospitals in rural areas. The fact is that all of our incentives have run the other way. The reimbursements rates for rural doctors and urban doctors vary greatly. In my own town of Madison, Wisconsin, if you go 20 miles into rural Wisconsin the difference between the payment to the doctors is dramatically different.

I couldn't be more sympathetic, nor could the President, in terms of how we intend to address the rural health care issue.

We put emphasis, in terms of providing loans and other kinds of financing to young medical students, in primary care and family physicians. Currently, all the incentives run in the opposite direction. While we have done some fine tuning in putting together this health care reform package, we have to address rural health care and the lack of physicians in much of this country.

As you well know, we are very sensitive to the fact that discussions of managed competition don't directly address rural health care unless we have a separate strategy on rural health care issues. Our strategy is to: enhance the Public Health Service programs, which encourage doctors to go to rural areas; heighten our sensitivity to the reimbursement rates and the way we need to run the incentives in the other way; use the National Health Service Corps as part of our effort to improve the placement of medical doctors and health care professionals in rural areas; and be more sensitive about smaller hospitals and clinics that are in rural areas.

You can expect a different strategy as we come out of health care reform if we really care about covering the entire country in terms of health care I couldn't be more sympathetic, but also more enraged as you begin to look at how the incentives have been running.

Mr. ORTON. Well, I appreciate that. I am happy that the White House understands. I look forward to the Task Force on Health Care coming up with a positive package of incentives which, hopefully, will reverse the previous trend toward incentivizing flight from the rural health care area.

My second question is regarding Head Start. That has remained perhaps the most popular program of President Johnson's Great Society. We have seen tremendous pay-backs from that program. But some of the research and comments that I have been reading lately indicate—some who have been in the administration of Head Start—that perhaps as much as a third of the monies being expended in the Head Start program are currently wasted. That concerns me.

I wonder if you could comment as to whether you believe the data to be accurate, and what you would recommend doing to reverse it. Second, some of the research indicates that the gains from the Head Start program are lost by about third grade, do you believe that to be accurate; if not, what is your experience, and if that is accurate, what you would propose or recommend so that we could retain the gains of Head Start participants.

Secretary SHALALA. First, I don't think that any of us accept an argument that a third of the money is wasted. It may not be well spent, and the reviews may indicate it is not spent precisely the way everybody expected, but it may be spent on the kids in programs that are weaker than we would like them to be.

We accept the criticisms of the Head Start program, though. We do not think that it has been tightly managed and clearly focused on its goals. We do not believe that we should start this summer with a program in which we pour money into the Head Start program with no changes.

Those of us that lead the Department—the new Assistant Secretaries who have been nominated, David Ellwood and Mary Jo Bane, who are among the country's leading experts in these programs—fully expect to make changes in the programs. As I have indicated, the program should be different at the end of the 4 years as we expand it so that it is not simply putting money into the existing program—you will have more than the existing program.

We intend to make changes in training, the quality of the personnel, and the program content itself, as well as in the management of the program. I don't know whether we will give more authority to the regional people who supervise the program as opposed to having everything handled in Washington. However, we are going to improve management of the program. Dr. Bane, who will be the Assistant Secretary, has had a lot of experience in decentralizing, more training on the front end, picking people that are more qualified for the program. We expect an enhanced program.

Dr. Ziegler and the other people who have done research support our efforts to expand the program and recognize that we are going to make changes as part of this process.

On the issue of what the research shows, which I am quite familiar with in terms of the loss of gains, we accept some of that research; and Secretary Riley and I have talked about that research. This is a reason, to better fit the Head Start program not only with the preschool programs of Chapter I, but with Chapter I in general. Chapter I will come up for reauthorization this year, and what has to happen is that HHS will work more closely with Education on the flow of those resources. The Education people and the early childhood people who have long seen themselves as having fundamentally different philosophies and different approaches to the nurturing process, but they are just going to have to work together, because what is at stake here is the growth and the nurturing of our children. I am all for different approaches and different philosophies, but I am unsympathetic to those gains not following through in children's lives.

What has happened by the third grade is schools that aren't as supportive, and they don't continue to improve. What we are doing is enriching at the front end, and then it is not flowing through. We simply have to say to everyone, hey, the game is up; we are putting a lot of Federal money here, and we want to see those gains right through.

There have been gains. The research has been mixed, and in fact the Head Start program kids do better in terms of dropout rates and other kinds of issues. Some of it is a measuring problem. You

take a wonderful Head Start program with a real impact on kids and then throw the kids into a lousy school, and you are not going to have any measurable impact. We improve the schools, we need to improve the fit so that everybody understands what they are doing, no matter what their different approaches are to the program. We are clearly committed to that.

Having someone like me, who has had some experience in education and in preschool, at HHS probably helps, because we speak the same language.

Mr. ORTON. Okay. Thank you, Madam Secretary.

Mr. BERMAN. Mr. Smith. And I might remind the members that the Secretary must leave at 12:30.

Secretary SHALALA. I think I have to give shorter answers. I don't think the problem is the Congressmen; I think the problem is the Secretary.

Mr. SMITH OF TEXAS. We all expect the President to propose a national health care plan probably in the next few months. A year ago he proposed the pay-or-play. Why did he switch, and what do you expect the cost of the managed competition plan to be?

Secretary SHALALA. I don't know what the cost is going to be, because I don't know what's contained in the program.

The President talked about a variety of different issues as he worked his way through the campaign—different philosophies and different approaches to health care. Now in office, our role is to review everything, and that is essentially what is taking place now with a lot of reflection on using the existing system as part of a concept called “managed competition.”

Managed competition, as you well know, will cover effectively in its—

Mr. SMITH OF TEXAS. Ms. Shalala, I don't want to get into what it will cover; I just want to get into the cost.

Let's assume that the figures that we have are correct, somewhere between 20 or 30 billion, \$50 billion. Assuming that there is some cost, and it is several billion dollars, how will these costs be offset and will they be offset in the plan itself or not?

Secretary SHALALA. I don't know the answer to the question, Congressman.

Mr. SMITH OF TEXAS. So you can't say whether you are considering taxes or what kind of taxes?

Secretary SHALALA. We are considering everything, but I don't know the answer to your specific question.

Mr. SMITH OF TEXAS. What about the welfare reform proposal that the President has made? Do you expect those to result in cost savings any time in the first 5 years or not?

Secretary SHALALA. The part of welfare reform that has to do with child support enforcement will save some resources. We have put a budget number into the deficit reduction package so there is an aspect of what that will save. Since I don't know the specific design of welfare reform, I can't cost it out.

We do intend, though, on the child support enforcement to get some savings.

Mr. SMITH OF TEXAS. But as far as you—you know, changing welfare as we know it, you expect that to result in cost savings when

that program is implemented, including the training, including the job requirements and so forth?

Secretary SHALALA. I just can't commit myself on that. It may be cost-shifting, the way you have described it.

Mr. SMITH OF TEXAS. Are you being consulted on the health care plan or on the welfare reform?

Secretary SHALALA. On both. But we are not at the stage where I can give you answers. We have just started to think through what the elements of the welfare reform are going to be. We are further along in health care reform, but we are not at the decision-making point. So I can't give you answers to those questions.

Mr. SMITH OF TEXAS. Actually, I think you did give me one answer, because I was going to ask you if you had considered the impact of either of these programs on the deficit reduction package; and since you don't know how they are going to play, clearly you haven't considered the impact of these programs on the deficit reduction package that the President has already proposed. Is that correct?

Secretary SHALALA. That is correct. The only things that you see in the deficit reduction package on health care reform are the specific reductions in medicare and medicaid that we have detailed; and we have indicated that that is a downpayment.

Mr. SMITH OF TEXAS. I understand that. But, for instance, if welfare reform leads to an increase in costs because of the jobs that are going to possibly be provided for by the government, that will increase the deficit if there is an additional cost that you have not anticipated.

Secretary SHALALA. We have no plug numbers on welfare reform.

Mr. SMITH OF TEXAS. I was saying if there was an increase in cost, you have not allowed for that in any plan that has been proposed so far.

Secretary SHALALA. No, we have not.

Mr. SMITH OF TEXAS. I notice in your prepared statement and your comments a few minutes ago, as far as your stimulus package goes and your agency goes, you have \$200 million to increase HIV and AIDS treatment services.

I have read figures anywhere from, I think it is \$90,000 to \$190,000 for the cost of treating an indigent AIDS patient. Could you make a guess as to what the actual cost really is for the total treatment of treating someone with the AIDS virus during the entire course?

Secretary SHALALA. I am sure we have those numbers. These investments are in Ryan White; this is the pediatric AIDS investment that we are suggesting. I am sure the Department has a specific number, an average cost number.

The number I have heard is about \$100,000.

Mr. SMITH OF TEXAS. I have been using \$100,000, because that is on the conservative end of the spectrum.

Secretary SHALALA. We would be happy to supply it for the record.

[The information follows:]

The actual cost of treating a person with AIDS, from diagnosis to death, will vary for each individual depending on that person's number of hospitalizations, length of stay, and the actual hospital and outpatient charges, all of which tend to vary pri-

marily due to geographic location and the nature of the opportunistic infections acquired. For example, in 1990, the average length of a hospital stay for a medicaid patient with AIDS in Florida was 15 days; in New York State, 19.2 days; in California, 11.6 days; and in Hawaii, 17.4 days.

However, Dr. Fred J. Hellinger of the PHS Agency for Health Care Policy and Research (AHCPR) has conducted studies that estimate a national average lifetime cost of treating a person with AIDS from the diagnosis of AIDS to death to be \$102,000, based on 1990 data. These costs represent direct care medical expenditures only. This estimate is based on an average yearly cost of treating a person with AIDS to be \$38,300; an average length of hospital stay for a person with AIDS to be 16.3 days; an average charge for a hospital day for a person with AIDS to be \$1,100; an average number of hospitalizations during a calendar year for a person with AIDS to be 1.6; and the estimated mean survival of a person with AIDS to be 20 months. The \$102,000 estimated lifetime treatment cost for a person with AIDS is then derived from estimates of overall average treatment costs of \$5,100 per month for 20 months. This figure is higher than earlier estimates due to enhanced longevity from new life-sustaining drugs, higher hospital charges per day, and slightly longer lengths of stay.

Mr. SMITH OF TEXAS. Okay. In that regard, do you support the President's plan to admit immigrants with AIDS or with the AIDS virus?

Secretary SHALALA. The President has not taken a position on that issue.

Mr. SMITH OF TEXAS. He took a position not only recently, but also during the campaign, and it is in his Putting People First.

Secretary SHALALA. We have not expressed an opinion on that particular—

Mr. SMITH OF TEXAS. You may not have expressed an opinion, but the President has expressed an opinion. He has come out several times in the last several weeks. There was a vote in the Senate that you are probably familiar with and so on, on his proposal.

Secretary SHALALA. I see what you are talking about.

Mr. SMITH OF TEXAS. Do you support the President's view that we ought to admit immigrants with the HIV virus?

Secretary SHALALA. As you probably know, the health care professionals have suggested that we should lift the ban on everything except infectious tuberculosis. In light of the congressional vote, the administration is reviewing our position.

Mr. SMITH OF TEXAS. Okay. So there may be a change in that position, as well.

You mentioned health care professionals. I assume health care professionals includes the American Medical Association, which has come out in opposition to admitting individuals who would be permanent resident immigrants?

Secretary SHALALA. Yes. It does include that.

Mr. SMITH OF TEXAS. Thank you, Ms. Shalala. You answered my question.

Thank you, Mr. Chairman.

Chairman SABO. Mr. Blackwell.

Mr. BLACKWELL. Thank you, Mr. Chairman.

Madam Secretary, I am certainly delighted to know that you are holding the position because of the kind of person you are, and your philosophy is in keeping with what I believe we need at this point in the history of this country.

As I listened to your statement this morning, there is nothing in here that I cannot support. In fact, I have been talking about this for a long, long time—most of the things—including national

health care. But I do have a problem. In Philadelphia, we work with the homeless, and we find that TB is out of control in this country, and more especially in parts of Philadelphia, I imagine, than around the country. And it is not being dealt with properly; it is being swept under the rug.

We have a fine health commissioner, and I believe he is doing the very best that he could possibly do. But we have people sleeping with the homeless who have TB, and a few times we have had to call the health commissioner to get help for people who had it, if they knew they had it, and they were turned back out into the street by the authorities, I imagine because of lack of resources.

Is there something right now that we are trying to do across the country to arrest this problem?

Secretary SHALALA. Well, the Centers for Disease Control and Prevention have an effort in this area, and in our investment package, we actually have an increase in resources for TB.

You are absolutely right. The hardest hit are the people that have AIDS. We need to get on top of the TB issue immediately; and therefore, we are increasing our investment. Some of those resources are going to the communities themselves, and others are going to research and to other kinds of control efforts to see whether we can, in fact, get control of the issue here in this country.

As you probably know, the difficulty is with HIV patients that may also be drug users and the need to get them to come back for the treatment. We can treat TB, but we need to work with people who have all sorts of problems. Getting them to come back for treatment has been terribly difficult.

Mr. BLACKWELL. Yes, but I understand that they are incarcerating people and putting them in populations without giving them the proper examination to find out whether or not they have been exposed to that; and that creates a very serious problem. In addition to which, we have people who sleep in subways, little babies, pregnant women, who are being exposed to this every day. So we need some emergency measures right now, short-term, to deal with that problem.

I would just hope that—I understand you appreciate what I am saying.

Secretary SHALALA. Yes, I absolutely do, and I am well aware of the issue that has to do with prisons in this country and with the need to treat people in those institutions as a way of preventing long-term health needs. It is a growing problem in which the government hasn't done enough. We need energy and leadership; and I am well aware of that.

Mr. BLACKWELL. I would like to make one other—

Mr. BERMAN. Mr. Blackwell, if I may just interject, not to take away from your time, but we do have a vote and I assume it is a journal vote. It is the Chair's intent to keep the process going. Some of the people who are going to be asking questions have left temporarily. They will come back shortly, and we won't have to recess the hearing.

Mr. BLACKWELL. Mr. Chairman, that is all I have. Thank you.

Mr. BERMAN. All right. Well, it is perfectly fine if you have any more questions.

Mr. BLACKWELL. That is okay. I am fine. Thank you.

Mr. BERMAN. Okay.

Mr. Allard?

Mr. ALLARD. Thank you, Mr. Chairman. As I think most everybody is aware, when we look at our spending problem in the Federal budget, one-third of it is discretionary spending, almost two-thirds of it is entitlement spending; and certainly your Department handles a lot of entitlement programs. Have you given any consideration to how you may change qualifications of individuals to cut back on entitlement spending?

Secretary SHALALA. As part of health care reform, we are reviewing existing health care programs to see what should be incorporated into the overall package. I am not aware in social security, for instance, or anywhere in the Department, other than we clearly have responded to requests for information. I am sure there are people in the Department who have, at one point or another, thought about the eligibility issues in terms of social security.

But, certainly, the fundamental programs in the Department related to health care are going through review, and that includes who is eligible, how they are treated, and who needs to be covered.

Mr. ALLARD. Have you personally given that any thought?

Secretary SHALALA. I have thought about it over the years—in terms of eligibility for social security and who pays for social security, as well as welfare programs; I am not sure I am on record with any of those—

Mr. ALLARD. Would you care to share any of those thoughts with this committee?

Secretary SHALALA. Issues like whether you get on social security at 62 or 65 are obviously historical, political decisions that were made without factual information about how long people live and how long their working lives ought to be. My own view of these issues is, issues like these come up in time as either facts change about people's health, longevity, or our attitudes about work, but they also come up when you want to cut programs. One is dictated by the financial considerations, the other by changing attitudes.

For example, we have fundamentally changed our attitudes about when women should go to work. Hundreds and thousands of middle-income and lower-income women left their children in certain kinds of child care settings long before we thought about strategies for child care, because they had to go to work for economic reasons. In some ways our welfare programs didn't catch up with those changes in attitudes. While one group of women were going to work because they had to for economic reasons, we have supported for a long time, another group of women on welfare programs, because we hadn't changed our attitudes about entitlement programs.

So, yes, my ideas have changed as information has changed over the years.

Mr. ALLARD. Have you given some thought to raising the eligibility for medicare from the age of 65 to 67?

Secretary SHALALA. No, I actually haven't.

Mr. ALLARD. Okay.

On the area of welfare reform, you had made the statement that you want to assure us that there will be adequate funding for implementation of welfare reform. I have been involved in welfare

reform at the State level, and obviously, one part of that is taking care of the child care aspect.

But there is another important part of that discussion, and that is that what do you do to get people off of welfare? And it seems to me that if you are going to have meaningful welfare reform, the end result is you are going to be using fewer taxpayer dollars to pay for people to be on welfare. And have you personally given some thought as to how that may be accomplished?

Secretary SHALALA. Well, yes. That is, what kind of investments do we need in education and in jobs programs as a way of getting people off of the welfare system, particularly the newer entrants into the welfare system, some of whom are, in fact, teenagers.

Mr. ALLARD. Single women with children.

Secretary SHALALA. Yes. I have had quite a bit of experience with the design of programs that both try to reduce teenage pregnancy and make investments in young people so that they receive assistance through their high school years and into college, and do become productive citizens.

Mr. ALLARD. I agree that education is an important part of that, but I think there is another component, too, that we have talked around and not got to directly, and that is the work component, getting people jobs or even getting them started working while they are on welfare.

Do you have any comments on that?

Mr. BERMAN. I must point out the time of the gentleman has expired.

Secretary SHALALA. Yes. We consider work and the concept of work the central to welfare reform. Getting people off of dependency programs and into work is fundamental to how we are thinking about these issues.

But also, if I might add, Congressman, fundamental too, are our expectations about people and transferring those expectations to young people who may not have a clear view because of their family situation. We believe that everyone should get themselves ready to go to work, and our expectations are that if there is a program for support, it will be a short-term transitional program, not a long-term program that will encourage dependency.

Mr. ALLARD. Thank you for your answers.

And thank you, Mr. Chairman, for your indulgence.

Mr. BERMAN. The Chair recognizes himself. I have two very short questions and then one comment which I would be interested in your response to, Madam Secretary.

As I understand the President's proposal, he is proposing in the Ryan White program \$200 million in additional spending, to be appropriated in this fiscal year as part of his stimulus package. And, he is proposing a \$120 million increase in fiscal year 1994. Is that \$120 million increase over and above a baseline which includes the \$200 million stimulus package?

Secretary SHALALA. Yes.

Let me give you the exact answer. We are actually going to be providing \$190 million plus \$120 million, and if your question is, are we building this into the base, the answer is, yes.

Mr. BERMAN. One hundred and ninety in fiscal year 1994? Is that the stimulus?

Secretary SHALALA. One hundred and twenty plus \$190.

Mr. BERMAN. All right. So \$190 million is in the stimulus package, not \$200. And, that is built into the baseline, and then \$120 million above in fiscal year 1994?

Secretary SHALALA. Yes.

Mr. BERMAN. Thank you.

Secretary SHALALA. If it is not, it is now.

Mr. BERMAN. Great. Times have changed.

Actually, with regards to the other question, I already have the answer.

I wish to comment on one discrete area of the whole health care crisis. ERISA, a law that was passed in the early 1970's, has been construed by the courts in recent years to preempt a whole variety of State regulations—in many areas, it is labor or employee benefits, but some particular areas involving employer-sponsored health insurance, the effect of those preemption decisions; and ERISA has essentially no meaningful regulation at the Federal level, and very little enforcement. The effect of that preemption has been to wipe out all statutory and common law remedies at the State level against bad faith insurance practices, including terminating policies of people, refusing to make payments in the fashion to which they are committed through the insurance contract.

We recently saw a Supreme Court decision in the case of AIDS where the employer-sponsored insurance all of a sudden imposed a limit, to be applied retroactively, of \$5,000 for any specific illness—a variety of discriminatory, capricious, arbitrary activities with no Federal remedy.

My only comment is that I would hope that the task force, as it develops its health care proposal, to the extent it is committed to continuing through the private insurance system, that seems to be what we are hearing, it takes into consideration this problem and that it address this issue because standing alone, Congress has very little ability to overcome the institutional forces which like the situation they have fallen into by virtue of these preemption decisions based on a law that Congress passed many, many years ago, and I can't believe anyone ever intended it would have the consequences that these court cases have given it.

Secretary SHALALA. Thank you. We will.

Mr. BERMAN. Mr. Miller.

Mr. MILLER. Thank you. Madam Secretary—thank you, Mr. Chairman. I am a freshman member of this institution, and I have heard several witnesses; and you must be very important, because you have two people taking down what you are saying.

Secretary SHALALA. I talk fast.

Mr. MILLER. Maybe that is it. I am also learning why we have to go all the way over there to get a vote on the journals, but I guess it is for physical fitness for the Members of Congress to run over there and run right back.

During the campaign, then Candidate Clinton talked about how Nixon went to China concept and you know, a Democrat could address issues that maybe a Republican couldn't, and I assume he is referring a lot of times to some New Deal programs or some Great Society programs that may not be successful today.

Are there any programs that you are focusing on eliminating totally?

You know, one of the concerns I have is, we talk about across-the-board cuts, and I think some of my Republican colleagues talk about that, and I have concerns about across-the-board cuts, because they are probably programs that I would assume you would agree need to increase staffing; some should be eliminated.

My question is on those that should be eliminated, if there are any. Are there any of those within your Department that should be phased out totally?

Secretary SHALALA. Well, I don't know whether they should be phased out totally or fundamentally reorganized. As part of health care reform, we are looking at everything we are now doing in the Department. As part of welfare reform, when the President says we want to end welfare as we know it, my assumption is that it may lead to a fundamental change in the welfare program moving it from a dependency program to more of a jobs and an investment program.

How that will work out in terms of a configuration—if your question is, am I going to come in with a list over the next 4 years of things that I don't think we should be doing any more because we should be refocusing what we are doing, the answer is yes, I am going to try to. In fact, I asked for a list of all the programs in the Department, many of which seemed to have the same titles. That is the kind of thing it seems to me, at this point in time, the leadership of the Department should look at. But I don't have a list in my back pocket.

What I see is a large number of small programs put in place by someone's good idea. Whether that fits into a broader strategy for prevention, which is one of the things that we want to do, or for health care reform or welfare reform, I can't tell you at this moment. If your question is, are we going to think like that, the answer is yes.

Mr. MILLER. How many programs are there in the Department?

Secretary SHALALA. Two hundred and fifty.

Mr. MILLER. One of the things the President talked about reducing the total staffing—

Secretary SHALALA. A lot of them are little, sort of boutique programs.

Mr. MILLER. Right. You hear about some of the ones in Agriculture, for example, that get criticized, the honey program and the mohair program and such. You know, I am guessing there are programs like that that maybe have—you know, have their own little constituency that, you know, need to be focused on, because it would be a better way to use the resources.

One of the questions I also have is, the President talked about reducing total Federal employment by 100,000. Then I read an article in the paper a couple of weeks ago about one Department head—relatively—not a Department head, but a program director or such that had 2,500 employees; and he said, well, it really is not going to affect me because our authorized level is 3,500 and we are at 2,500, so it doesn't make any difference to us.

How many of these 100,000 are going to be real cuts? How do you differentiate between authorized levels and actual levels that are really going to be real cuts in your Department?

Secretary SHALALA. There have to be real cuts. The President is looking for an actual reduction. We are pretty well-staffed, so they will be reduced through attrition, obviously. To simply take the 4,000 or so cuts that we are going to need through attrition may devastate some programs. We are going to have to do some downsizing and to look at a variety of different programs.

I am not going to suggest that we are going to eliminate people that are currently in their jobs, but just that we have to rethink the programs of the Department. My humorous comment about boutique programs suggests that we may do some consolidation as part of this downsizing.

The one thing you get when you get me is someone who has spent almost 20 years in the public sector, mostly in public institutions in which we have done nothing but downsizing. I have not had the luxury in my career of ever being able to do some building in terms of adding positions as opposed to refocusing, eliminating some things and doing a lot of consolidation.

Mr. MILLER. Well, along the same lines, Head Start was mentioned and there was a discussion about some of the reports coming out about the efficiency and all that. But I am on the Education and Labor Committee, and they have a large role in Head Start, and I guess HHS has a large role in Head Start.

Is there a duplication there in the two different Departments running—I mean, you know, maybe not. How is Head Start run?

Secretary SHALALA. Head Start is run by HHS, not by Education.

Mr. MILLER. What does Education have to do with it? I think it is some subcommittee I am on.

Secretary SHALALA. You have more than one committee that has jurisdiction, and perhaps that suggests that there might be some streamlining within Congress itself.

Mr. MILLER. Very definitely. The more I have seen this place—

Secretary SHALALA. Was I supposed to say that?

Mr. MILLER. I just find that very frustrating as a freshman. I remember the first day on Education and Labor they were talking about the 125 different training programs, and every subcommittee get a few training programs, rather than putting them all under one. It is part of the problem.

I think this reorganization committee of Congress is one of the most important committees we have going right now.

Secretary SHALALA. Obviously one of the things that is going on is that the Departments themselves and the way Congress was organized—if I might talk as a political scientist—were put together for historic reasons. All sorts of people want jurisdiction. We keep these configurations; and as programs are added, we put them in one place or another, sometimes depending on history or on the jurisdictions of committees. There is, obviously, duplication and overlapping that takes place.

The important thing, though, is sometimes it is easier simply to go in with a tough mind and try to streamline and reconsolidate as opposed to taking on a fundamental structural change in terms of

reorganization. We have to do some hard thinking about the way we deliver services and about where the authority is in the system.

I happen to be one of those disciples of total quality management who is much more interested in decentralizing responsibility, in eliminating layers of management, as opposed to layers of workers, and giving people that are at the decision-making point more authority. We have a lot of thinking and reorientation to do in government. It is going to take some time to do that, because people are used to more hierarchical arrangements, but most of the rest of the world is moving in the other direction.

Mr. MILLER. I am glad to hear you talk about quality management. David Osborne was here last week, talking about some of the same issues; and at a seminar the other day—the infamous one that the Republicans went to in Princeton—in fact, the program I was chairing was on quality management, about the experiences in the Navy Department, and if we are going to get more efficient government, this is exactly the route to go.

Secretary SHALALA. I have had a lot of experience in TQM and quality management in the public sector.

Mr. MILLER. Right. That is the way it should be. Thank you.

Mr. PARKER [presiding]. Madam Secretary, I want to ask a couple of questions as far as the health care side. Tell me a little bit about what your philosophy is—and what your Department is going to be doing as far as these pharmaceutical companies and the amount that they are charging for the manufacture of drugs. It seems that we are putting more and more pressure on the local pharmacy out there; we are limiting their reimbursements, making it harder and harder for them just to make a living and keep everything going.

What kind of plans do you have to change that?

Secretary SHALALA. Well, as part of health care reform, we will be looking at issues of who pays for drugs and whether covering people's drugs needs, at least some percentage of them, ought to be available to every American. As someone that ran a pharmacy school and had long-time contacts with local pharmacists, I am very sympathetic to their concerns.

The effort of health care reform is to get broader numbers of Americans insured, and that should help local pharmacists as opposed to hurting them. What is hurting them, in fact, is that people get less and less coverage in this country.

The costs of drugs is of great concern to this administration. The costs are going up very fast, though they have slowed down a little in the last year or so in some areas. We are concerned about the cost of drugs in relationship to immunization and the fact that all of our kids don't get their shots.

Mr. PARKER. But much of that comes from the manufacturer, not the local pharmacy.

Secretary SHALALA. Yes, exactly. The issue specifically of local pharmacists is that they should get a fair income.

Our choices now are to squeeze down around the edges, which squeezes everybody, as a way of controlling costs; but the basic medicare and medicaid programs are going to increase by 10.5 percent. That cost is going to be shifted around the system.

What is happening across the country is that a million people each year lose their health coverage, and they obviously are slow-

ing down in their purchase of drugs if they have to pay for it out of their own pockets.

Mr. PARKER. But do you agree that the manufacturer has not been touched from the standpoint of—

Secretary SHALALA. Yes. Absolutely. Except to the extent that we have a payment schedule, no. We don't have a system in this country yet that systematically helps us deal with the rising cost of drugs.

Mr. PARKER. Okay.

One part of the President's package calls for enhanced EITC, the Earned Income Tax Credit. I have been trying to get some numbers as far as the long-term effect of this program, and how it is going to be administered.

Now the figures that I have heard on medicaid and medicare, for instance, is the first year after it was implemented, the cost was around \$3 billion. Well, that has grown substantially since that period of time. It is a much bigger program now than was ever envisioned initially.

Now, on the enhanced income, earned income tax credit, would it be administered from the standpoint of let's say you have a person out there who works, works 40 hours a week; has, let's say, three or four children; and that person makes, let's say, \$12,000 a year, which would not be uncommon for a lot of people in a rural area like Mississippi. And the poverty level would be—according to the charts, would be let's say \$18,000, just to pull a figure.

Would—on the enhanced earned income tax credit, would the Federal Government be sending that family a check for the difference between \$12,000 and \$18,000 when it comes to April 15?

Secretary SHALALA. I think the answer is yes.

If I might point out, this program is administered by the Treasury Department, so I may not be able to answer your questions in great detail, though our senior people have participated in the design of the program and in who it impacts. I have the numbers in terms of what the increases are going to be, but I would have to provide for the record some detailed answers to those specific questions.

Mr. PARKER. If you would do that, I would like to know the detailed answers, because I would like to know what the cost is going to be 5, 10, 15, 20 years down the road. Because whenever you make the statement that we are going to provide a payment to that family to make up the difference between what that person earns and the amount of money out there—wherever that amount of money may be according to the charts, that is the poverty level—I think we would be talking about a tremendous amount of money over a period of time. EITC could become one of the biggest programs we have in the Federal Government—and no one is talking about it, and I have not been able to get information from anybody.

I mean, I have gotten tidbits, I have gotten a little information here and there, but nobody has really talked about it. I think that it is extremely important that we talk about this type of new spending program.

Secretary SHALALA. The President is planning to increase that program by almost \$20 billion, and the payout, the 5-year total increase is \$26.7 billion.

Mr. PARKER. How far up would that go on the—as far as income scale? I mean, where are we talking about?

Secretary SHALALA. In the detailed budget, we will a chart containing that data. If you would like a briefing on what we are doing with the earned income tax credit, we can provide that.

[The information follows:]

As described in *A Vision of Change for America*, the President proposes to expand the Earned Income Tax Credit to ensure that a family of four will not be forced to live in poverty, if one of the parents works full-time at a minimum wage job. The cost of the entire proposal is \$6.7 billion in 1997 and \$19.9 billion over 4 years.

Mr. PARKER. Have you projected the EITC—the enhanced EITC was part of your information that you provided to us?

Secretary SHALALA. Yes.

Mr. PARKER. Have you projected, or have you been in discussions with anybody as far as the projections, as to what this is going to be 5, 10, 15, 20 years down the road?

Secretary SHALALA. Well, we know what it is going to be 5 years down the road. I am sure someone has projected the data, although they wouldn't project numbers beyond 5 years. I am certain that we could provide some information. The details will be in the budget, and we would be happy to provide what we can.

[The information follows:]

The following table displays estimated Earned Income Tax Credit incentives over the next 4 years. Additional incentives will be determined according to congressional action on the 1994 President's request.

EITC Tax Incentive Proposal ¹

(Dollars in millions)

	1994	1995	1996	1997	Total 1994– 1997
EITC.....	525	6,228	6,445	6,662	19,860

¹ *A Vision of Change for America*, OMB, Feb. 17, 1993.

Mr. PARKER. Do you agree that it is one of the biggest changes in public policy that we have ever started?

Secretary SHALALA. It is a significant change, but it represents a change in attitude, and we are going to put our significant support for those who work to lift themselves above the poverty line. It is a change in philosophy. The President has said very clearly that those who work should not have to raise their families in poverty.

Mr. PARKER. Ms. Slaughter?

Ms. SLAUGHTER. Thank you, Mr. Chairman. I know you are in a hurry, but—

Secretary SHALALA. I am not in a hurry for you, Congresswoman.

Ms. SLAUGHTER. Bless your heart. Just as in preschool and Head Start, that having you at HHS would make a difference, I just want to echo that in every single aspect of health care. I couldn't be more delighted to have you there. Everything that I hear you say is something that many of us have been working for a number of years to try to achieve.

One of the things that, of course, you and I have talked about before is childhood vaccine. I know that you had a meeting recently with pharmaceutical producers. And it is still difficult, I know, to negotiate with them, to buy vaccine in bulk. I wondered if maybe you could consider whether or not it would be feasible to have the government through CDC perhaps produce its own vaccine for childhood immunization. We can talk about that later. I wouldn't want you to come up with an answer today.

Another thing that interests me a great deal, is education and homeless children: We have been carrying legislation for a number of years to make sure that they get some health care and, again, a chance to go to school until we can get their parents back to work.

With respect to flu shots for seniors, there was a pilot program that HHS did. It was very successful, but then they dropped it. It costs about \$10,000 to hospitalize each senior with the flu, and about \$5 to \$10 to inoculate them. It sure makes sense to do that, and I know you are well aware of that.

A little bit of good news that I want to leave with you too is that Xerox Corporation, one of our fellow New York corporations, has just announced a program called Life Cycle where they are going to be giving their lower-paid employees money directly to help with child care costs, elder care, partial cost for family leave, college tuition and first-time home buying. I think that is a great step up, but again, it shows how much the government has allowed the people in those circumstances to try to go it alone.

I look forward to working with you in the years ahead, in trying to tame some of the tigers that have been eating us up.

I was pleased at what you said about HCFA. It is my honest belief that HCFA has operated in the last number of years on the belief that if everybody in the world is angry with them, that they must be right; and it is going to be difficult, I guess, to change that attitude.

Secretary SHALALA. I think it has already changed.

Ms. SLAUGHTER. I would love sometime just to go out to see the warehouses where all the paperwork is kept. I am almost confident that nobody ever reads it. But the health care in this country is drowning in paper and forms, and it will be to the eternal relief of patients, all consumers and providers, if we can deal with that.

So let me just thank you for the great steps you are taking. I am very proud of you.

Secretary SHALALA. Thank you very much.

Ms. SLAUGHTER. Look forward to having a good working relationship and really making some change in the country. Thank you very much.

Secretary SHALALA. Thank you.

Mr. PARKER. Madam Secretary, we appreciate your taking your time to come and testify. You have a Parker on your staff, which makes your Department a whole lot better; I want you to know that. We do appreciate your spending your time.

Secretary SHALALA. Thank you very much. Thank you.

[Whereupon, at 12:35 p.m., the committee was recessed, to be reconvened at 2 p.m., the same day.]

Mr. COYNE. I would like to call the committee to order. I would like to call the committee to order and welcome Secretary Brown

to the Budget Committee, and I have a brief opening statement that I would like to make in behalf of Chairman Sabo.

The House Budget Committee is called to order to continue our hearings on President Clinton's economic and budget proposals. We welcome our witness, the Secretary of Veterans Affairs, Jesse Brown.

As a U.S. Marine wounded in the Vietnam War, Secretary Brown, you gave up full use of one arm, and you have given much more to this Nation. You have literally devoted your life to the veterans' cause in volunteer and professional offices, culminating in serving as the Executive Director of the Disabled American Veterans organization in this country.

Now you have responsibility for a huge health care system, and a variety of other programs benefiting more than 27 million veterans, and for a budget of more than \$35 billion a year. The Veterans Affairs Department is spending about \$15.6 billion this year on health care, a not so small part of the Federal health care bill.

Veterans health care has to be considered along with medicare and medicaid and other Federal health programs in any searching review of our health care system. You are a member of the First Lady's Health Care Reform Task Force engaged in examining the overall Federal and national health care picture. The committee will be interested in your views on national health care reform and the need for it.

Where do you think the VA health care system fits in? Can it be integrated with other Federal health care programs, and perhaps made more efficient, while still protecting its focus on our veterans.

We keep hearing a lot about underutilized VA facilities throughout the Nation. Is there an answer to that problem that will not alarm veterans who have a right to expect that their care will not suffer as a result?

In the Clinton long-term plan, there is increased funding for veterans health care to provide for adequate medical staffing and other purposes. There are also some proposed savings dealing with non-health care areas. We would like to hear your views of these various increases and savings and how they bear on your Department's mission for our veterans.

Again, welcome to the Budget Committee, Secretary Brown, and I look forward to hearing your testimony.

Secretary BROWN. Thank you, Mr. Chairman. Mr. Chairman, I have provided the committee with a written statement and ask that it be submitted for the record.

Mr. COYNE. Without objection.

STATEMENT OF HON. JESSE BROWN, SECRETARY, DEPARTMENT OF VETERANS' AFFAIRS

Secretary BROWN. I am pleased to be here this afternoon, Mr. Chairman. I would like to take advantage of this opportunity to introduce the people at the table with me.

Hershel Gober is my Deputy Secretary and serves as the chief operating officer of the Department. Mark Catlett is the Acting Assistant Secretary for Finance and Information Resource Manage-

ment and our budget officer. Vic Raymond is the Acting Assistant Secretary for Policy and Planning.

I note that many members of this committee previously served on the Veterans Affairs' Committee, and that Congressman Mollohan currently serves on VA's Appropriations Subcommittee. It is good to see so many faces that are on this committee, even though a number of them are not here this afternoon.

As you know, President Clinton will be submitting his budget request to Congress early next month. Until then, it would be inappropriate for me to discuss specifics of our budget request today. However, I would like to discuss the role the VA has played in our Nation, what we are doing today, and what we hope to do in the future.

Perhaps no legislation in this century has had the impact of the G.I. Bill of Rights. Over 20 million individuals have received all or part of their higher education under one of VA's education programs. These people have increased their income earning potential, resulting in more tax revenue for our country.

They own their own businesses and hire others who also provide tax revenue. Statistics show that veterans in every age group have higher income than their non-veteran counterparts. The impact of the G.I. Bill continues today with the Montgomery G.I. Bill providing educational opportunities for veterans and reservists.

VA has guaranteed loans for over 13.5 million homes at a value of over \$360 billion since the inception of the program. Thousands of workers in the building industry have been employed because veterans are able to convert the dreams of homeownership to reality.

Mr. Chairman, veterans can and often do have other positive effects on the economy. We have been included in the President's economic stimulus package with maintenance and construction projects at our hospitals and cemeteries. We have identified \$235 million in projects that can be obligated within 60 days of receipt of funds. These are needed repairs and are not just make-work jobs.

We estimate that this funding will provide employment for approximately 4,700 people, and we look forward to swift passage of the supplemental request.

I would also like to say a few words about the role of VA's health care program on the Nation. As you know, VA runs the largest hospital system in the country. What you may not know is that we have affiliations with 104 of the Nation's 126 medical schools.

More than 30,000 residents and about 22,000 medical students receive some of their training in the VA system every year. We also have affiliation with schools of dentistry, optometry, podiatry, and schools representing allied health professionals such as nursing, occupational therapy, pharmacy and dietitians. Our research program has contributed to scientific knowledge in areas as diverse as AIDS, geriatrics, and PTSD.

We are the acknowledged leaders in prosthetic research. Two of our researchers are winners of the Nobel Prize for Medicine. The VA has played a significant role in the area of national health care reform.

As you mentioned, I sit on the task force that is being led by Mrs. Clinton. I especially want to acknowledge the support of the President and the First Lady for VA's role in the process.

I believe that the VA can be a role model for national health care reform. To that end, we are looking at reforging our own eligibility criteria for VA care. The current requirements are complicated and veterans do not always get the care they need.

We are considering various alternatives that would guarantee a full continuum of services to a core group of entitled veterans, namely service-connected disabled veterans and nonservice-connected veterans of limited means. We will also be looking at ways that we might improve services for those non-core veterans.

We are currently weighing the pros and cons of various proposals and I hope to report to the Congress with my recommendations later this year. I also want to mention our plans to modernize our benefits delivery system. Our claims adjudication process has gotten much more complex as a result of decisions by the Court of Veterans Appeals.

In addition, we have a backlog of claims that is unacceptably large. Veterans should not have to wait for up to a year to receive what they are rightfully entitled to. Our modernization program will result in an integrated benefits delivery and management information system that will improve service to veterans in all areas under the jurisdiction of the Veterans Benefits Administration.

Mr. Chairman, we have a great challenge before us to do more and do more with less in an austere economic climate. This will not be easy. But I have confidence in the ability of the Department's employees to meet the challenge.

I would be very happy to answer any questions that you may have.

[The prepared statement of Hon. Jesse Brown follows:]

PREPARED STATEMENT OF HON. JESSE BROWN, SECRETARY OF VETERANS AFFAIRS

Mr. Chairman and members of the committee, I am extremely pleased to be here this afternoon.

As you know, President Clinton will be submitting his 1994 budget later this month. Until the budget is officially released it would be inappropriate for me to discuss specifics of VA's request. However, I would like to talk to you today about the Department, its programs, and the challenges we face as we enter the next century.

The greatest challenge we in VA will face over the next several years is the reality of limited resources. It is imperative that we redirect ourselves to improve our systems so that we are able to maintain quality health care and benefits delivery to the veterans and their dependents who are entitled to these services. This will be a difficult task but I believe we will succeed. VA has a talented and dedicated workforce and I believe they are up to the challenge.

I would like to address several issues before taking your questions.

ROLE OF VA IN THE ECONOMY

In a recent special issue of *Newsweek* magazine, the Pulitzer Prize winning author James Michener called the Servicemen's Readjustment Act of 1944, popularly known as the GI Bill, one of the two or three finest acts Congress has ever passed. He's right. Since that time over 20 million veterans and their dependents have received over \$67 billion in assistance under one of VA's various educational programs. These individuals have used their education to improve their standard of living. They have become better citizens and with their increased income have provided additional billions of dollars in tax revenues. They have been able to get the education needed to go into business for themselves and hire others to work for

them who also provide additional billions of dollars in tax revenues. They are doctors, lawyers, farmers, social workers, civil servants, and Members of Congress. In fact, in 1991 for all age groupings, male veterans have higher median incomes than male nonveterans. As an example, male veterans between the ages of 50 and 64 had a median income nearly \$5,000 greater than their nonveteran counterparts. The impact of the GI Bill continues today with the Montgomery GI Bill which provides benefits not only to veterans but to members of the Selected Reserve as well.

Since VA's home loan program was established, VA has guaranteed over 13.5 million home loans at a value of more than \$360 billion. This too has had an enormous impact on the economy by providing employment for thousands in the building industry. It has also helped to make home ownership a reality for those for whom it had just been a dream. In 1992, VA guaranteed 266,021 home loans at a value of nearly \$23 billion.

VA funding can also have a significant effect on local economies as well. As you know, VA has been included in the supplemental appropriation requested by President Clinton as part of his economic stimulus package. We are requesting \$235 million for our minor construction and non-recurring maintenance programs. This money will be used to improve our hospitals and cemeteries. It will be spent in an expeditious manner putting thousands of Americans to work on projects that will improve the patient environment at our medical centers, make needed repairs to our infrastructure, and maintain the dignity of our national cemeteries.

IMPACT OF VA'S HEALTH CARE PROGRAM ON THE NATION

The Veterans Health Administration runs the largest hospital system in the Nation with 171 medical centers, more than 350 clinics, 131 nursing home care units and 37 domiciliaries providing a broad spectrum of medical care. It is responsible for a budget in excess of \$15 billion in 1993 with an employment level of over 205,000 FTE. Of this total, \$14.6 billion and over 200,000 FTE are funded through our Medical Care appropriation.

Currently, 129 VA medical facilities are affiliated with 104 of the Nation's 126 medical schools. More than 30,000 residents and about 22,000 medical students receive some of their training in the VA system every year. VA is also affiliated with many of the Nation's schools of dentistry, optometry, and podiatry and in 1992 supported 487 resident positions in these disciplines. These activities directly support the patient care mission of VA and assist in training health care providers for the Nation. VA also has affiliations with other health care academic institutions representing more than forty associated health professions. These associated health care professional categories include nurses, pharmacists, audiologists, dietitians, physical and occupational therapists, social workers, and medical technologists among others. Approximately 45,000 students in these associated health professions annually receive all or part of their clinical training experiences at VA facilities.

Our medical research program has had an enormous impact on the practice of medicine in America. VA researchers have contributed to scientific knowledge in areas as diverse as AIDS, geriatrics, and post traumatic stress disorder (PTSD). We are the acknowledged leaders in prosthetic research. One of our research investigators developed the concept of the computed tomography (CT) scan. Two of our research investigators have been honored with the Nobel Prize for Medicine. VA has been a leader in medical research and it is my intention that we remain a leader, providing opportunity for talented researchers and being at the cutting edge in medical discoveries that will benefit our patients.

NATIONAL HEALTH CARE REFORM

I am pleased to tell you that VA is playing a significant role in the Administration's development of a National Health Care Plan. With the impact VA has on our Nation's health care it is only proper that this be so. I sit on the task force that is being led by Mrs. Clinton. Victor Raymond, our Acting Assistant Secretary for Policy and Planning, is a member of the working group charged to report back to the task force. Obviously, it is too early to know what the task force will propose. But I do want to acknowledge the support of the President and First Lady for VA's role in the process, and to let you know that I intend to promote VA as an active player and possible role model for national health care reform.

ELIGIBILITY REFORM

In addition to looking at potential roles for VA in the area of National Health Care Reform, we are also looking closely at our own eligibility requirements for VA

medical care. Today's eligibility requirements for various types of health care—hospital, outpatient, and nursing home care—are so complicated that veterans can't always get the care they need. Frankly, this doesn't make good medical sense and it doesn't make good common sense. I plan to try to change that. We are considering various alternatives and are weighing the pros and cons of each one. I hope to report to the Congress with my recommendations later this year.

DELIVERY OF BENEFITS

VA is engaged in a massive modernization project within the Veterans Benefits Administration. Our backlog of pending claims is staggering. The Court of Veterans Appeals is issuing decisions that are requiring us to change the way we handle these claims. Currently it takes us nearly six months on the average to process a claim for disability compensation benefits. Many claims can take up to a year or more. I do not believe that this is acceptable. Our modernization program will result in an integrated benefits delivery and management information system encompassing all program and management information needs. This will improve service to the veteran in all areas under the jurisdiction of the Veterans Benefits Administration.

Mr. Chairman, as I've stated, we have a great challenge before us to do more and do it better with fewer resources. No doubt it will not be easy, but I have confidence in the ability of the Department's employees that we will be able to provide improved services to this Nation's veterans.

This completes my prepared statement. I will be pleased to answer any questions the committee might have.

Mr. COYNE. Thank you, Mr. Secretary.

Before I proceed, I would like to recognize two new members of the Budget Committee as of this morning. We have Lynn Woolsey from California, who is a new addition to the Budget Committee, and also Glen Browder from the State of Alabama.

Welcome to the committee.

Ms. WOOLSEY. Thank you.

Mr. BROWDER. Thank you.

Mr. COYNE. Mr. Secretary, the President's economic plan includes savings of \$100 million in 1994, \$400 million in 1997, and \$1.6 billion over 5 years from improved management of Veterans' hospitals throughout the country. What specific reforms will you implement to achieve that level of savings in the budget and within the Department?

Secretary BROWN. Well, at this point in time, we have not identified exactly how we are going to restructure our hospital delivery system. But we know that there will have to be savings.

The fact of the matter is we share the President's vision that we no longer can continue to spend over \$800 billion a year, and at the same time have 40 million people uninsured and probably an equal number underinsured. Something has to change.

We believe that we can accomplish his vision of providing some basic plan to all Americans. And, of course, we would be doing that on a smaller scale, primarily covering just veterans. As I explained in my opening statement, we think that we can do that efficiently, simply by, number one, making sure that our core veterans are taken care of. That, of course, would come from nondiscretionary funds, because these are people the government has an acknowledged responsibility to take care of.

At the same time, we believe that we can open the system up to the other 24 million. Obviously, all 24 million are not going to come into the system, but once you open it up, we think we will end up making basic health care available to many of them. We

would then be able to take advantage of the economy of scale; we are everything any large universal health care system would ever want.

We are a managed health care right now, and we are the biggest in the country. We provide quality health care; we provide a full spectrum of specialized services from preventive care to specialized care in spinal cord injuries and so forth. So we think that once we are able to put this program in operation, just the mere size of it is going to help bring the cost of medical care under control. We feel that we can be a catalyst and, indeed, a model for that.

Mr. COYNE. So I presume we can expect more specifics in the coming months about where the savings will come from?

Secretary BROWN. Yes, sir. At this point in time we are still working on the basic plan, and as you know, we are working very, very hard with Mrs. Clinton. Everything we do has to be balanced with the President's overall vision for the country of providing a basic plan. At this point in time we simply do not have details on how we will bring about the reform that we want in an economical way.

Mr. COYNE. Okay. There are significant administrative savings and personnel reductions in the budget plan as promoted. Do you feel that there is going to be any adverse impact on services as a result of those cutbacks?

Secretary BROWN. I believe—obviously, here again, we share the President's vision that along with his economic stimulus plan and his investment plan—there has to be at a commitment to bring the debt and the deficit under control. We recognize that it is—veterans, too recognize that it is not into our short nor long-range interests to continue to allow the debt and the deficit to manage us. In some way, somehow, someone is going to have to take responsibility and manage it. So that is what the President is doing, and we are going to play a role in it.

In that process, veterans will be treated fairly, and I think that has been the test that we have been debating for many years. We have an opportunity to carry our case, and we are in direct negotiations with OMB and the White House. Veterans will be treated fairly. We ask them not just to look at 1993 and 1994, we ask them to look at this thing from an historical perspective.

I think once any reasonable person does that, that they will then see that the VA has been operating on a straight-line budget for the last 25 years, while other programs have gotten out of control, like medicare and medicaid. Here again, all of us are in this together, and we want to bring it under control, but veterans do not want to be the ones to balance the budget on their backs. I think the only question that we ask here is to be treated fairly, and I think that the President has made a commitment to do that.

Mr. COYNE. Thank you very much.

Mr. Allard?

Mr. ALLARD. Thank you. I would like to welcome you, Mr. Secretary, to the committee. I am curious. How many veterans do we have today?

Secretary BROWN. About 27 million.

Mr. ALLARD. Twenty-seven million?

Secretary BROWN. Yes, sir.

Mr. ALLARD. And how many did we have in 1980? Do you have any idea?

Secretary BROWN. No, but I can get that figure for you. Let's just say a couple million more, let's say 29.

Mr. ALLARD. Okay. So that is kind of what I am wondering. The trend is that we have fewer veterans today that we are trying to serve than we did a decade ago.

Are their medical problems more serious than they were a decade ago, or is there any change in that? Do you have any information as to whether that exists or not?

Secretary BROWN. Well, yes. I think the need has basically changed. We have an older veteran population now.

Historically, the Veterans Administration has been around providing treatment on an acute care basis, inpatient care. Now what we are looking at, veterans, an average World War II veteran is somewhere around 70 years of age, and he has different kinds of need. He is not sick enough to be in an acute care facility, but at the same time we know that in the very near future he may need long-term nursing home care.

So we have the added problem of not only taking care of the chronic problems, but also acute problems that may arise. We are going to have to convert some of those acute beds that we have now, to provide nursing home kinds of care for our World War II veterans. And as you know, the Korean War veteran is not very far behind in terms of age. So we have our job cut out for us in the next 20 years, I would say.

Mr. ALLARD. Are you using strategies, for example, to cut back on the days that a patient spends in the hospital? Are you doing those kinds of things?

Secretary BROWN. Yes, sir. Obviously you are asking the right questions. One of the things, as we look back historically, when the cost of medical care actually got out of control, those hospitals or health care providers that survived did some unique things. But one of the most unique and cost-cutting measures that was taken was the shift from an inpatient treatment modality to an outpatient treatment modality, and that was the bottom line.

Obviously, the VA is going to have to do the same thing. If we can provide quality care on an outpatient basis, it is much, much cheaper to do so, than providing that same care on an inpatient basis.

So we are constantly looking at the marketplace to take advantage of treatment modalities, the advances that are being made in medical technology to allow us to treat our people much more efficiently and cost-effectively.

Mr. ALLARD. In light of your comments, how do you see the veterans' health care system merging in with a national health care system, as I understand is being proposed by the First Lady's task force?

Secretary BROWN. Well, I think it should be understood that we see VA being maintained as a separate entity. We do not see the system being absorbed, as happened in Canada. As you know, we had a similar situation in Canada.

When they went to their universal health care for all Canadians, their VA hospital system was absorbed into the overall plan. But

we have commitments that this is not going to happen to the Veterans Administration. So let me make that clear first.

But to answer your question, the way I see it is, we will be doing for our veterans basically what the President hopes to do for the Nation as a whole—provide a basic comprehensive health care package, a full continuum of care, comprehensive health care. That is the same thing the President hopes to do for the Nation.

We think that, quite frankly, because of our unique situation in terms of our size and the nature of our delivery system, that we could, indeed, bring ours to reality much, much faster. Then the Nation could benefit from the information to be derived from such a system. That way, we would make a contribution by acting as a laboratory for the future before we actually take the system nationwide.

That is one of the things we are sharing with the task force and Mrs. Clinton, and I can tell you they are listening to us as they are to a lot of other people throughout the country.

Mr. ALLARD. Thank you for your comments.

I would like to move to home loans, the VA loans. You have in your package as part of the economic stimulus some extra funding to take care of VA home loans. Will there be some veterans who participated—am I correct in that statement?

Secretary BROWN. No, we do not have the—the \$235 million would not have any impact on our VA home loan package. It is not part of the stimulus plan.

Mr. ALLARD. Okay. So you haven't done anything to encourage homeownership among veterans in your economic stimulus package?

Secretary BROWN. No, sir. The stimulus package, it is going to create about 4,700 jobs at about 1,100 projects throughout 167 hospitals, and about six cemeteries, and primarily will be used for things like repairing roofs, repairing power plants, some minor renovation on hospital rooms; small jobs like that. I probably wouldn't imagine that any job would be over a million dollars, and the maximum duration of the entire project would—of the 4,700 jobs or the 1,300 projects, would probably not last more than a year. So we do not have any money that is programmed or allocated for the home loan program.

Mr. ALLARD. Is there a need for more VA loans?

Secretary BROWN. Well, obviously, right now, as you know, that has been a very difficult portfolio to manage, and at this point in time, we are still losing money on it, but we are doing very, very well. To answer your question, sure, we would like more money if we can get it, but we do not have any plans to ask for any more in that area, other than to offset bad loans.

Do you have anything you want to say about that?

Mr. CATLETT. Excuse me. Just one point on that. Any loan that is requested is guaranteed by the VA. There is no limitation. That is an entitlement, and we provide—everyone that applies for a loan gets a loan guaranteed by the VA.

Mr. ALLARD. Now, there is a condition that they have served in the Armed Forces and/or the Reserves.

Mr. CATLETT. Yes, sir.

Mr. ALLARD. That is the basic requirement.

Mr. CATLETT. Yes, sir.

Mr. ALLARD. The National Guard is included, also, or not?

Secretary BROWN. Reservists.

Mr. ALLARD. Just Reservists. So the National Guard is not included, okay. But the State National Guard, I guess, wouldn't be either then, would it or not, at the State level?

Secretary BROWN. We can check that for you.

Mr. ALLARD. The answer is no in the back.

Okay. Very good.

It seemed to me that if we are going to encourage new jobs, that home construction really does stimulate a lot in communities, and in my view would perhaps do more for veterans and do more for the job market than maybe what you have outlined. So I just bring that to your attention for you to consider further, if you are ever in a position to talk about where you can stimulate the economy.

Thank you, Mr. Chairman.

Secretary BROWN. I think—

Mr. COYNE. Oh, go ahead.

Secretary BROWN. Sir, I think you are absolutely right. I would say, though, that in the President's overall stimulus package, \$15 billion of it is monies that are going directly into the program, similar to the portion of the stimulus package we are going to receive.

But the other \$15 or \$16 billion is going to be in tax credits to allow companies and small businesses and so forth to expand and to create different kinds of jobs and revenue along the lines that you are talking about.

Mr. ALLARD. Thank you.

Mr. COYNE. Mr. Orton?

Mr. ORTON. Thank you, Mr. Chairman, and welcome, Mr. Secretary. It is a pleasure to have you here. I share, as I am certain most in this body do, the commitment that our country has made to our veterans. We appreciate the work of the Veterans Administration in carrying out that policy, and recognize that you have some difficult chores dealing with the policies themselves, the realities of today's situation, and the fact that your administration has only been in place for a few weeks.

We recognize that you have had very little time to go through all of these details, and want to work with you in appropriately identifying areas where we can improve efficiency. I am convinced that that is your motivation.

As we look at the realities, we find that, in fact, our veteran population is aging. Thankfully, we have not had major conflicts since Vietnam, and the numbers of veterans of the World War II, Korea, Vietnam era are shrinking which places certain difficulties on the system, particularly the medical system, the veterans' medical hospitals, clinics and so on.

I guess my question relates to striking a balance, in ensuring that we actually do continue to maintain the promises we have to our veterans, yet providing the most efficient care possible.

As I look in my own district which is very rural, I have constituents who live several hundred miles from the nearest veterans' hospital, which by the way is not at full capacity—we are looking at the need to convert hospital beds to nursing home beds, as you

have indicated. Yet these veterans cannot get services, many services, provided in their area; they have to drive several hundred miles to the veterans' hospital.

In looking at these inefficiencies, I guess I would encourage you in working with the task force to keep an open mind. You have indicated we do not want to subsume the veterans' hospitals into general health care. I don't know that we want to make that statement yet. I think we need to keep an open mind and look at what the health care policies will be; what kind of health care are we going to guarantee everyone in the country, and can we have efficiencies, increased efficiencies, in subsuming some—maybe the rural portion of veterans. I don't know.

I guess I am asking, do you have any—any inklings at this point as to what we can look forward to in combining efficiencies in the veterans' program along with the general health care policy?

Secretary BROWN. Well, yes. I think that they are related. The fact of the matter is, as you will recall when I talked about our noncore group, we are primarily talking about a potential marketplace of about 24 million veterans, even though we know nowhere near that amount will actually come into the system. What we hope to do, is to allow that group to buy into the system. They will buy into it through their medicaid reimbursements, medicare reimbursement, CHAMPUS, third-party insurers.

There are some States who provide some form of care too—places such as Hawaii. That money will actually be used to finance the reform that we are talking about, by and large, you are still talking about taxpayers' money. The beauty of what we are saying is, rather than taxpayers' money being paid at a higher cost in the private sector, we know based on our experience, that VA can provide the same care as in the private sector, at somewhere between 16 to 22 percent less. That is a savings to the taxpayers.

So we can bring some stability to this spiraling cost of medical care that we are now experiencing in this country. As you know, it is growing somewhere around 12 percent a year; and I cannot think of any kind of investment that grows at that rate, and we have no way of stopping it. So something is going to have to take place.

The President has outlined a plan that can at least bring this cost under control so that we can manage it, as opposed to having it manage us.

Mr. ORTON. I appreciate that, Mr. Secretary. At the same time you are laboring under a rather difficult scenario. The numbers of people that the system provides services for is shrinking and the beds we have are under utilization right now in many of the veterans' hospitals. This has led to suggestions that we open them up for nonveterans, so that we can get a more efficient use of the system.

There is a great deal of opposition to that, because veterans feel it is not available to them when needed. But oftentimes the underutilization itself tends to encourage, perhaps, unnecessary utilization. With empty beds it may be easier to put a veteran in the hospital when outpatient care may be more efficient for that particular patient.

I recognize the tension that you have working, trying to keep the system operating as a separate public sector system, and working

with the inefficiencies that will be inherent in the system by having the same size system with a reduced population to serve.

Secretary BROWN. I think the point you raise is well taken, and I would certainly like to take advantage of this opportunity to discuss it.

You are absolutely correct when you say some of our hospitals are underutilized, but that is artificially induced because the hospital directors and VA management decided that it is much better to provide quality care for a few as opposed to trying to provide care to everyone to meet the demands.

So they have artificially created the shortage of beds, simply because they did not have the resources to man those beds.

That doesn't mean, by any stretch of the imagination, that there is no need out there; there is plenty of need. And if veterans who were entitled to care 25 years ago, were still entitled today, you would have 100-percent capacity.

So we recognize exactly what you are saying, but based upon our reform efforts, including eligibility, we are talking about expanding the system. There is no doubt in my mind that the excess capacity you are talking about will fill up very, very fast.

Mr. ORTON. Okay. I would like to explore that further with you individually, but as I see, I am about the only one left here.

Secretary BROWN. You can keep talking.

Mr. ORTON. We do have a series of votes going on right now. At this point we do have a number of votes scheduled on the floor which could take a significant amount of time, and rather than asking you to remain we will thank you for attending the hearing, and we will close the hearing at this point, but we will leave the record open for written questions to be submitted by Members and ask you to respond to those for the record.

[The above mentioned questions and responses to same appear at page 106.]

So thank you very much, Mr. Secretary and others, for attending. This hearing is now adjourned.

Secretary BROWN. Thank you.

[Whereupon, at 2:45 p.m., the committee was adjourned.]

THE PRESIDENT'S BUDGET PROPOSALS FOR FISCAL YEAR 1994

THURSDAY, MARCH 4, 1993

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE BUDGET,
Washington, DC.

The committee met, pursuant to call, at 2:10 p.m., Room 210, Cannon House Office Building, Hon. Martin Olav Sabo, Chairman, presiding.

Members present: Representatives Sabo, Kildee, Bryant, Stenholm, Slaughter, Coyne, Kennelly, Andrews, Price, Orton, Pomeroy, Woolsey, Kasich, Herger, Allard, Smith of Michigan, and Hoke.

Chairman SABO. Good afternoon. The House Budget Committee is called to order to continue our hearings on the President's economic proposal. Our witness this afternoon is Robert Reich, Secretary of the Department of Labor.

I have a statement I will put in the record.

[The prepared statement of Hon. Martin Olav Sabo follows:]

PREPARED STATEMENT OF HON. MARTIN OLAV SABO, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF MINNESOTA

Good afternoon. The House Budget Committee is called to order to continue our hearings on President Clinton's economic proposals. Our witness this afternoon is Robert B. Reich, the Secretary of the Department of Labor.

During the past two administrations, the Department of Labor has been something of a backwater agency. But your presence here today, Secretary Reich, is part of the evidence that all this is going to change. President Clinton appointed as Secretary someone who worked closely with him in the preparation of his "Putting People First Plan." And he charged Secretary Reich to "bring forth a revolution in lifetime training and education of our workforce."

The proof of the rhetoric is in the pocketbook. The President's budget proposes a number of major program investments in the Department of Labor and a relatively small number of program reductions.

The President's investment plan includes increases for several Labor Department programs. Many of the increases center around the new Life-Long Learning Initiative. It is built on the expansion of a number of current job-training programs. We understand that you also intend to streamline these programs, and to develop a network of one-stop-shopping career centers.

It's a pleasure to have you with us, Secretary Reich. I look forward to your testimony.

Chairman SABO. We are very happy to have you here. Clearly, your appointment to this position indicates the President's view of the importance of your agency, and I think all of us know your lifetime commitment to training and to making this economy work and to the concern about the working people of this country.

Frankly, we are pleased to have you here to visit about the President's program.

Mr. KASICH. Before we get into your testimony, Doctor I want to get your name right.

Chairman SABO. Did I mispronounce it? I have been mispronouncing his name.

Secretary REICH. I answer to anything except retch. I draw the line there.

Mr. KASICH. Let me say, Mr. Chairman, I don't want to get into any kind of inflammatory discussion here. Our problem is we have a CBO estimate that is \$25 billion over 5 years under the Clinton number. That is, the Joint Tax Committee scores the Clinton plan \$25 billion differently than you would score it. I don't mean you, but what Clinton scored it at. Now, House Democrats have added \$67 billion in cuts—\$42 billion different than the original CBO scoring. I mean, we are now \$67 billion off.

Chairman SABO. Correct me. I think the \$25 billion is part of the \$42 billion.

Mr. KASICH. No. It is \$67 billion.

Chairman SABO. Okay. I will take your word for it.

Mr. KASICH. We have \$67 billion worth of changes. You have a defense number that is not defined and is not going to be defined. I don't want to blame the Secretary on that because he has his hands full trying to load that Department up. Besides that, I like Les Aspin, and I don't want to criticize him.

Mr. Chairman, how can we move with this? Next Wednesday—it is almost like Keystone Kop budgeting. Every day there is another change in the numbers.

Frankly, we have taken some of the Clinton proposals and we are sticking them in our proposal and we cannot get them estimated because the CBO is changing the scoring. Our scoring problems are as serious as your problems are. I just don't know why we cannot slow this thing down, push it into the next week so we can at least know the kind of ground we are standing on. I feel like I am standing on two canoes on a lake and everything is moving and moving in the wrong direction.

Why can't we just—

Chairman SABO. Join the crowd.

We are scheduled for next week. The leadership has announced the schedule for consideration not only of our bill but for other bills. They are all interrelated. We clearly are on schedule for markup next Wednesday. I might indicate we intend to use CBO scoring for the budget resolution. So where numbers are another variance between the President's proposal and CBO, we intend to use CBO.

Mr. KASICH. What are the deficit numbers going to be, the targets? Where is the package right now? You were at \$325 billion. Only, if you are \$67 billion less, does that mean I take \$325 billion and subtract \$67 billion off the number?

Chairman SABO. You are trying to get the answer the reporters were just trying to get out of me.

Mr. KASICH. Marty, wait a minute. Here is the problem.

Chairman SABO. Start with the President's proposal. You will get a chairman's mark with some variation from the President's proposal.

Mr. KASICH. If we want to offer something, either here or on the floor, how do we know what numbers we have to get to when your numbers keep changing?

Look, I think it was fair when Panetta said on television on Sunday that any viable proposal had to be specific and get to \$300 billion. Now I don't know where we are. I don't, and frankly, you don't know where you are yet. You don't know what your number is going to be. How are we supposed to draft something up to match your number when you don't know what your number is and we aren't going to find out until we walk in here the day of the mark? Marty, you don't do things like that.

Chairman SABO. Well, we will have a chairman's mark. We will try to give you, when that is decided, some advance briefing on what is in our mark. But—

Mr. KASICH. I am not trying to be partisan here. I am saying I have never seen anything operate this way before.

Chairman SABO. Oh, I think you have. The fact is, in 1981, the budget resolution preceded the details of the Reagan budget by 2 weeks. So it is not unusual. I have to tell you—

Mr. KASICH. Marty, I will tell you, I have had my trouble with Republicans, and with Republican Presidents. That is why I introduced my own budgets against them. During the 1990 budget deal there were a thousand pages stacked on the desk out there, on the floor. Nobody got a look at it. Both political parties' fingerprints were on it. This isn't a partisan charge.

Then we were told, if you want to see what is in it, go down. Read the document. The document was this high. We passed it at 4 o'clock in the morning. That isn't the way we ought to operate.

Chairman SABO. Our document will be relatively short.

John, you have the prerogative of developing for your side any alternative you like, based—and I would assume you would want to use CBO scoring.

Mr. KASICH. Sure.

Chairman SABO. That is what we are going to do. Our document will reflect changes in estimates, expenditures, revenues as done by CBO. We will not be using the original administration proposal when they are at variance.

Mr. KASICH. But you cannot tell me now whether it will be \$67 billion less in deficit reduction or the same amount. You just do not know yet.

Chairman SABO. Clearly, we are caucusing and working those numbers up, just as I expect you are.

Mr. KASICH. That is right.

Chairman SABO. But I can tell you that the basis that we will use for scoring is CBO. Those, clearly, are the hardest and most accurate numbers for us to use.

Mr. KASICH. As I said publicly, there is nobody that is fairer than you are. I think the train we are on, the schedule we are on, is not dictated by you. But, I mean, we give the Republicans more fair treatment when we play a baseball game than we do when we are doing budgeting. You know, we came in with a certain number.

That number changed. It went down to 325. Joint Tax scores it differently. CBO scores it differently.

It is Wednesday afternoon. We have Thursday, Friday, and then the weekend. We will be working. You will be working. Nobody will be communicating. Then it is Monday and Tuesday. We have 4 days to try to figure out what all these numbers are. I am not sure they are not going to change again.

Chairman SABO. I don't think so.

Mr. KASICH. Why not wait 1 more week? What is the rush? Why not work this out?

Chairman SABO. There is no rush. We will be in good shape to move by Wednesday. Clearly, this program, the budget is there in relationship to other programs.

Mr. KASICH. There has never been in the 10 years I have been here, and I would bet you in the last 50 years, a President's proposal for a budget that we did not have more than 24 hours to see. If we got it today, that would be 4 days.

Chairman SABO. You had the President's proposal——

Mr. KASICH. It changed. It is \$67 billion different.

Chairman SABO. John, you had the President's proposal for—when was his speech? February 17?

Mr. KASICH. I agree. We had part of it. We haven't had the defense numbers. We have not had the tax details. We had the aggregate.

Chairman SABO. We deal with aggregates. You had that since then. We had to make accommodations resulting from change. I expect you have to make accommodations resulting from change.

Mr. KASICH. I don't disagree with that. What I am saying is the document you are going to bring here on Wednesday is going to be different than the document that we have seen.

Chairman SABO. Right.

Mr. KASICH. By at least \$67 billion.

Chairman SABO. I can't guarantee you to what degree of difference.

Mr. KASICH. It is going to have to be different. You have to make changes. Either up or down. You have to make changes. There is going to have to be \$67 billion of this proposal we will never have a chance to see.

Come on, folks. You guys are fair people. This is not—this isn't the way it ought to work. Give us another week to look at the figures, the numbers, the policies. We aren't even going to be able to know what your policy changes are in the \$67 billion.

Pass your budget. You probably are going to. I am just telling you—it is just not right. It is not fair. It doesn't represent any of the consideration that the minority is deserving in this. I wouldn't ask you to accept George Bush's numbers or Ronald Reagan's numbers that represent \$67 billion part of the budget that we can't see. Why can't we just delay it a week?

Chairman SABO. John, if you are working on an alternative, you have full freedom to develop that alternative with whatever assumptions——

Mr. KASICH. It will be like Jeopardy. We will stand up and write down how much we spend and get the question later. That is what it is like here. What you are saying to me is we do not have a right

to review the President's budget before we vote on it in advance and be able to develop our proposals. We may want some of your proposals.

We want to see the document. We want the time to look at the document.

Mr. BRYANT. Will the gentleman yield?

I just would like to observe that there is no chance in the world, to use the more polite term of that phrase, you are going to vote for our budget. To sit here in this room and pretend you are going to consider voting for it is preposterous. Let me finish.

It is preposterous and everyone knows that.

The other thing is, we are developing what we think the budget ought to be. The President sent over what he thinks it ought to be. Presumably, you are developing what you think it ought to be. If you think there is a chance you might have the same ideas about the budget as we do, then there is a question in my mind as to why you are in one party and we are in the other. That is a defining difference between the two parties. So we are wasting time here.

Mr. KASICH. I might suggest to you, first of all, we will not deny there are some parts of this budget that are good. There are some parts of this budget that we are going to have in our proposal. I would like to see what the \$67 billion are.

John, if I came to you and said, I am going to have an amendment on burden sharing. I want you to vote for it. You know what your reaction would be? Let me see what it is. I would have the courtesy to show you what it is 5 minutes before we had the vote if I anticipated having any kind of constructive relationship with you.

What you are suggesting is from here forward, if we get the White House, we wouldn't need to show you the President's budget.

Mr. BRYANT. You have seen as much of the President's budget as we have.

Mr. KASICH. That is right. I am saying to you, boy, I hope you are not going to have to vote until you have a chance to look at it. We need more than 24 hours to take a look at the \$67 billion.

Mr. BRYANT. We will have a chance to vote on our budget.

Mr. KASICH. Do you think the President ought to send a budget to Congress for its review in its entirety before we vote on it? Do you not think that?

Maybe you want to come out on the record as saying that it shouldn't be that the President should show his hand until the day we markup. That is what up are doing.

Mr. BRYANT. The President sent an aggregate budget on February 17. This is a committee that votes on aggregate budgets.

Mr. KASICH. You can't tell me the aggregate number. You tell me what the aggregate number is going to be for the Democrats, I will write it down. You don't know what it is.

Mr. BRYANT. Of course not. We are still having meetings.

Chairman SABO. John, John, John. We are going to markup on—next Wednesday. We will use CBO estimates of various spending and revenue-raising proposals and entitlement changes. I think those are the most accurate numbers for us to use. I assume you have their re-estimate. That was sent to the minority. You have access to the same numbers we have. You have to use those numbers for preparing your alternative.

Mr. KASICH. We have to use a Ouija board to guess where you are going to go. I am saying we ought to have more time than that. We ought to have a chance to see what you are going to do.

Chairman SABO. John, we don't know what you are going to do.

Mr. KASICH. Give us another week. Marty, look—

Ms. WOOLSEY. Will the gentleman yield?

Mr. KASICH. I have 12 people I have on my staff. I don't have 500 down at OMB. You were generous enough to increase the percentage of resources we get. I thank you for it. We are still not at a third of the resources. We have 12 people, counting interns. OMB has 500.

I have been saying now for 2 weeks, slow the process down so we can develop our alternative. We cannot develop it any quicker than the President can without the staff people. We are doing the best we can. I can't tell you we could get it done as quickly as you can with 500 people at OMB.

Chairman SABO. We have limited access to those. We are basically using our own staff and through CBO documents. Clearly, you have the same base that we have to start with. That is the President's initial budget as re-estimated by CBO.

To go through the process of getting agreement is not simple. That, I understand. I expect you had some of the same difficulties we do in arriving at consensus.

We are on a time schedule. We will proceed.

We have a Cabinet member here. I think we should hear from him. Secretary Reich, we will let you speak.

STATEMENT OF HON. ROBERT REICH, SECRETARY OF THE DEPARTMENT OF LABOR

Secretary REICH. Mr. Chairman, Mr. Kasich, members of the committee, perhaps I can shed a little bit of light or a little less heat on the argument or at least the colloquy you just had.

I wanted to bring to the committee's attention for the record the CBO's reestimate of the Clinton budget estimates, that is—it is the smallest reestimate in 14 years. You are talking about the difference between the \$205 billion and \$206 billion in terms of the goal of deficit reduction.

Granted they are starting from different baselines. The CBO is assuming a very different baseline, a much lower baseline—\$319 billion. The Clinton administration was assuming a much, much higher baseline.

There are some technical differences. I will be the first to admit there are technical differences. Again, these reestimates are going to continue to occur. Not only CBO but OMB reestimates back in August. You will have reestimates with regard to changes in interest rates, changes in economic forecasts. We have seen over the past year and a half enormous changes in projected estimates.

All I can say, from the administration's standpoint, we are confident that our budget is sound and that \$140 billion is sound and the budget goal of \$205 billion, \$206 billion, again the smallest reestimate difference, the smallest difference in 14 years between CBO and where we are right now.

Again, excuse me for interrupting your particular colloquy. I do want to get on to my testimony. If you will allow me to submit it for the record, I want to cover four major problems that it seems to me are central, problems with regard to jobs. I am here to talk about jobs. These problems go to the core, it seems to me, of the economy and the President's investment package vis-a-vis the 1994-1997 budget.

The first issue has to do with the fact we are in a jobless recovery. That is a little bit of an oxymoron. People do not really talk about recoveries if it is a jobless recovery. In fact, we are not now creating jobs. We are 22 months out from the bottom of a recession. Normally, given the past four to six recessions, you see the creation or the re-creation of 3½ million new jobs. This time around, we are less than 500,000 jobs. There is a 3 million jobs gap. The jobs are not back yet.

The latest economic figures, in fact, over the past couple of days are not all that encouraging. Housing sales, down 14 percent. We see an awful lot of trepidation out there. Overall, the signals are good, but the jobs are not yet coming back.

The administration is committed to getting those jobs back. That is why you see the stimulus package that you do. That stimulus package includes, and I know this is not specifically of relevance to this committee, but it is part of the overall context.

That has as part of it an extended unemployment insurance which is extraordinarily important, especially since you have 1.8 million people depending upon that. Hopefully, it will be signed very soon.

Part of that unemployment insurance extension is a new twist that signals the direction we want to go with unemployment insurance. That is that there is a little bit of money in there to allow States to take somebody who is unemployed and by 5 weeks identify the people who are likely to be long-term unemployed and thereby identify them and get them the job training and get them to job counseling and get them the information so that they can get a job.

It is New Jersey's plan. New Jersey actually showed they could reduce the length of time of and the duration of unemployment by doing that. That is reinventing government. This actually saves money. We are going to try to do that more and more.

Summer youth and educational enrichment, the other part of the stimulus plan—and, again, I want to mention it because it does have a bearing upon the future. This summer, the President is committed and is proposing \$1 billion extra for summer youth. And it is not just summer youth, not just summer jobs, it is also educationally enriched summer jobs.

A large portion of that, almost a third of that money, is going to ensure that every kid has tutoring and remedial education during the summer so they don't slide back. That is what happens in many of our areas, many of the places where kids don't have jobs. Many of our disadvantaged areas, those kids slide backwards over the summer if they don't get remedial education, tutoring.

This is not only a jobs program. It is a remedial program. Get the kids off the street. It is targeted—a large part is targeted to the concentrations of the places where you have kids in poverty and is designed to get them off the streets, give them discipline, structure

for the summer and get them remedial education and tutoring during the summer.

Let me move on. Even when the jobs come back—let's hope they come back soon—even when the jobs come back, there is a substantial problem. Even when we get back on track, the track is not a good track. This is not a partisan statement. This is over 15 years, Democrats, Republicans, business cycles, expansions, contractions. Overall, average American wages have been stagnated, if you control for inflation, over the past 15 years. This is an enormous problem.

For the 75 percent of young people who are not going on to college, the problem is even worse because what we see is that if you haven't a college degree, your wages and benefits have actually declined. If you have a college degree, you are a little bit on an upward escalator. Not as much as we would like. Not as much as you should be over the past 15 years. But if you don't have a college degree in society now, you are on a downward escalator.

That is tracking downward ever faster, the gap between the college educated and non-college educated. In 1980, college educated had about 30 percent more income on average. Now it is up to 60 percent more income on average. That gap is growing. It is not because everybody needs a college degree. It is because skills and education are becoming so critical to the economy that we have inherited. Education and skills are at the center of the new economy. If you don't have education, if you don't have skills, if you are not prepared for the new economy, you cannot perform in the new economy.

What we are seeing is that if you don't have skills, you are now in competition with millions of people around the world, most of whom would be delighted to work for a small fraction of your prevailing wages and benefits. But even if we built walls around America, it is still not going to stop the erosion because technology is taking away a lot of those good jobs. A lot of the poor jobs, a lot of the jobs in factories, unskilled jobs are now competing with new technologies.

It is not just manufacturing. It is also services. Look at bank tellers—automatic teller machines; gas station attendants—automated gas stations. Over and over and over you see unskilled Americans in competition not just with unskilled people from around the world but with technology here at home.

We cannot stop it. We shouldn't try to stop it. We have to educate and train our people. This is becoming a national crisis. We have to do a better job educating and training our people. We have to educate and train our people.

One of the real problems is work-to-school—school-to-work, rather. If you are going off to college, we have about the best higher education system in the world. It is the pride of our country. I almost don't have standing to say because I used to be part of it, but from around the world people come to our colleges and universities. We are flooded with foreign students. Why? Because it is such a terrific system, the best system in the world.

But if you are not going on to college, you face one of the worst school-to-work transition systems of any industrialized country. In

fact, we don't have one. We have a hodgepodge of junior colleges, vocational institutions, technical colleges, proprietary institutions.

An awful lot of kids don't go anywhere. They just drift from job to low-paying job to low-paying job. We don't have a system. We don't have help for a lot of these young people not going on to college.

What we are envisioning—what the Clinton administration is proposing is a system that actually helps and guides young people who are not going on to college, that gives them some degree, some framework in which to work, and standards, national occupational skills standards.

So if you don't get a college degree, you have a certificate of competence in a technological field, a pre-professional field, something employers can rely on that is national where employers know if you have that certificate, you have achieved certain proficiencies, certain technological masteries, in maybe 15, 20, 25 of these broad skill areas. Not narrow—we don't want them to become obsolete. Broad skill areas that are proof to employers that you have it.

Matching grants to States, to locales that are actually building these kinds of systems, that are providing through junior colleges, community colleges, technical colleges the work force of the future and working with the business community because one of the cruelest things in the world is to get training and not have a job waiting for you on the other side.

The old question: Training for what? We want to be sure these school-to-work transition programs, youth apprenticeship programs have jobs at the end and that the private sector is involved in creating these curricula and apprenticeship programs. Some States do it already. We will build on what the States are already doing. No new Federal bureaucracy. Build on what the States are doing, the successful States. Make them models.

Now another aspect of the school-to-work transition, particularly for disadvantaged kids, is a very successful program, Job Corps. This committee understands and knows Job Corps, I know. We are asking for additional funding, a 50-50 formula—50 percent increase, 50 more Job Corps centers over the next 10 years. That is a proven win for disadvantaged kids.

If you look at studies, why does Job Corps work? It works because you are giving kids a structure, taking them out of their environment, giving them a system in which they are learning and working at the same time, and you are providing discipline. It is also a system that gives them an adequate length of time to develop those skills and develop that discipline.

Job Corps is an expensive program, but it is a program that works. That is why we are asking for additional funding.

Beyond these problems, that is, getting the jobs back on track, getting the economy back on track, and helping kids get jobs if they are not going on to college, there is a third big problem in the economy with regard to jobs. That has to do with structural unemployment. You can see it in this recession. People say recovery. I say it still is a rescission because the jobs aren't back.

You can see it right now. If you compare this past recession to the six previous recessions, one astounding fact emerges. In the previous six recessions, only 14 percent of the unemployed did not

get their jobs back at the end of this recession. Fourteen percent of the unemployed felt they were going to lose their jobs. Their employers felt they were not going to hire them back. When they registered for unemployment insurance it was clear they would not get their jobs back.

In this particular recession just ending, we are up to 44 percent. Forty-four percent of the people who lost their jobs, in terms of what they expect, what their employers expect, what we expect, are not going to get those old jobs back.

This is a fundamental structural change in the economy. It is not just this recession. If you look at military cutbacks, look at technological change in our society, that is changing entire industries. Look at even high tech industries, the mainframe computer industry, shrinking before our eyes. Look at international trade, the structural effects of international trade on our economy.

If you look at all of this, you see for the first time at least since the mid-1930's when we talked for the first time about creating a system for the unemployed, what you are finding is that more and more, now 44 percent of the unemployed, are not getting their jobs back. They are not going to get their jobs back.

We need a system in place for helping the average working American find a new job regardless of the cause of why that person lost the job. We have a lot of scattered programs: Trade adjustment assistance, EDWAA and a lot of people are talking about a separate program for NAFTA, people who are injured by the North American Free Trade Agreement; a separate program for military cutbacks, a separate program for timber.

No. We need a comprehensive program regardless of why you lost your job, and there ought to be one-stop shopping. Any American—working American—ought to be able to go to one place, get unemployment insurance, get information, training, job counseling, information about where there are jobs. We need a comprehensive approach. That is what we are asking for. And a one-stop shopping system. That is also what we are proposing.

Finally, Mr. Chairman, members of the committee, problem number four with regard to jobs. This is the most difficult and recalcitrant problem. It has been with us for a long time. It is growing. That has to do with our central cities. I talked about the problem of getting jobs back. I talked about the problem of school-to-work for average working Americans who are not going to go on to college. I talked about the problem with dislocated workers which is becoming a larger and larger problem.

Problem number four, the least tractable, most difficult, in many ways the most discouraging, is what happens to the poor inside our central cities with regard to jobs—getting jobs, finding jobs, training for jobs.

Here I don't have any easy answers. We have a Job Training Partnership Act. I have looked at it and studied it. We made changes. I am told there have been changes made. 1992 amendments. There is evidence out that this is still not doing what it was intended to do. The President has decided to freeze funding for Title II, JTPA, at the 1993 levels until we figure out what to do. Until I can say publicly and to you that the public is getting its money's worth.

I am not suggesting it is not working. The verdict is mixed. All I am saying to you is I cannot tell you right now it is working, and I am not going to ask you or Congress for more money and the administration is not going to ask for more money because it has to be fixed. We have to have more information about it.

I am also working very closely with Dick Riley, Donna Shalala, Henry Cisneros. I talked to Henry this morning about these problems. We are going to come up with a strategy. The administration has a task force to come up with a strategy, too, with regard to our poorest areas and work in our poorest areas and jobs in our poorest areas in this country. We have to take action.

Those are the four big problems we intend to attack with your help. I could just say in conclusion that I want to stress that—"with your help." Congress is part of this, obviously. The administration is going to do its best to implement programs, to come up with ideas, to work with people up here on those ideas, to work with the business community on those ideas, to work with labor. We already started, but there is an enormous challenge ahead.

Americans care most about the economy and about jobs and about what their kids are going to be doing. One fear out there—and you feel it and you see it every time you go back to your districts—are my children going to be living as well as I live. Why am I working harder and getting less for it? And we are committed to try to answer those questions and do something about it.

Thank you.

[The prepared statement of Hon. Robert Reich follows:]

PREPARED STATEMENT OF HON. ROBERT B. REICH, SECRETARY OF LABOR

Chairman Sabo, Representative Kasich, Members of the Committee: I am pleased to appear before you today to highlight the role of Department of Labor initiatives in the Clinton Administration's program for economic recovery.

Jobs—more jobs and better jobs, now and for the future—are at the heart of the Administration's economic agenda and the Department of Labor's mission. Labor Department proposals to create both immediate and long-term job growth figure prominently in all three phases of the President's economic plan: the stimulus program to strengthen the current recovery and to provide for immediate job growth; the investment program in the skills of the American workforce, critical to long-term economic vitality; and the deficit reduction program, essential to securing a better economic future for ourselves and for our children.

The components of the stimulus package are designed to create jobs—and fast. But the short-term stimulus is carefully structured also to take us further on the road to long-term growth. The stimulus package contains four key Labor Department initiatives, intended to make an immediate and positive impact on the current economy while providing an investment in our future: a \$1 billion expansion and improvement of the Summer Youth Employment and Training Program; an urgently-needed extension of the Emergency Unemployment Compensation (EUC) Program, with a net cost of \$3.2 billion in 1993; a related proposal to develop worker profiling, an innovative means of identifying and providing job assistance to dislocated workers, which will require \$14.3 million in 1993; and a \$32.1 million expansion of the Senior Community Service Program, which gives low-income, senior Americans badly needed jobs while providing necessary services for their communities.

JOBS NOW

Finding summer jobs is never easy—and is particularly difficult for young people in the inner city. The continued persistence of high teenage unemployment rates, months after the trough of the recession, is dramatically illustrated by the graph in Exhibit A—courtesy of Representative Obey. But the proposed \$1 billion expansion of the Summer Youth Program means—this summer—that 1.3 million economically

disadvantaged youths will be at work in public and non-profit agencies. This almost doubles the number of young people who have been put on the job in the past. Almost half of the resources available for this summer will be concentrated in the 100 American cities with the greatest numbers of eligible youth. The Program will be coupled with, and complemented by, a campaign to expand summer jobs in businesses, thereby spurring the creation of jobs in the private sector.

The expanded Summer program offers the youth it serves more than summer work experience, however, crucial though that is. Nearly one-third of the proposed increase in funding will go to enriching the academic component of the Program, through the incorporation of basic skills assessment, tailored learning programs, and closer coordination with schools. For many disadvantaged students, the summer breeds not only boredom and inactivity, but also a serious deterioration of academic skills, particularly in reading and math. As a consequence, students spend the first months of the new academic year playing catch-up instead of moving forward to develop new skills. Coupled with the academic component, the summer work experience will then form an important link between one year of school and the next.

Another problem demanding our immediate attention is the fact that what is technically termed an economic "recovery" has not brought new jobs for millions of unemployed workers. Unless we take action, nearly 1.8 million jobless Americans risk losing their shield against financial despair. The Administration has proposed an extension of the Emergency Unemployment Compensation program to October 2 of this year. The EUC program provides an additional 20 to 26 weeks of emergency benefits, depending on the State's unemployment rate, to unemployed workers who have exhausted their regular benefits.

The time for short-term fixes is long gone. For long-term changes in helping dislocated workers, we need to do more than provide extended unemployment benefits. We need to face the fact that, in contrast to past economic downturns, many workers who lost their jobs in this recession will not be going back to their old jobs—and must find employment in new occupations and industries. Exhibit B of your texts graphically illustrates the steady increase in the percentage of unemployed who are long-term unemployed, showing that twenty-two months after economic "recovery," more than a fifth of the unemployed have been unemployed for twenty-seven weeks—or longer. That is why the EUC legislative package includes a vital new twist: a proposal to encourage States to profile dislocated workers to identify those workers who appear to be permanently displaced. Under this program, the initial unemployment claim would set in motion the identification of workers facing permanent displacement—early in their period of unemployment. States would then be able to help them find reemployment through referral to appropriate local services, which may include counseling in how to search for jobs, prepare resumes, and interview for jobs, as well job training programs.

In facing our immediate needs, we also need to remember that many senior citizens face economic disadvantage and joblessness. But the Senior Community Service Employment Program has a proven track record—offering low income seniors meaningful work in community services projects ranging from health care to fire prevention. Participants not only receive employment opportunities—they also get personal and job-related counseling, job training and physical examinations. This program is a double investment—providing jobs to disadvantaged seniors and providing needed services to the community. Participants in the program earn the minimum wage in part-time jobs in hospitals, schools, parks, day care centers, as well as within the elderly community. We propose an increase in the funding for the Program—to bring the number of authorized senior community service job slots to the authorized level—which will enable as many as 105,000 seniors to gain income through meaningful work.

NEW JOBS FOR THE FUTURE

These components of the stimulus package constitute a downpayment on a larger investment in "human capital"—the skills and capacities of American workforce. For too long we have not been willing to make serious investments in this capital, content with piecemeal reforms and isolated programs. But today, we cannot afford to train less—we need to train better, and to ensure that we have accurate measures of the effectiveness of our training. Our efforts will continue to be ineffectual and incomplete until we launch an aggressive campaign to create a coherent job training system.

We need to take a broader view of lifetime learning if we are to develop an education and training system that successfully prepares young people for first jobs, dislocated workers for new jobs, and all workers for better jobs. We can accomplish these

goals more surely and efficiently by making our precious education and training dollars work together. The Department of Labor and the Department of Education have begun to build this necessary partnership between the world of education and the world of work and will collaborate closely in our efforts to lay the foundation for a badly-needed school-to-work transition system. The investment component of the proposed budget therefore proposes: \$270 million to begin building a nationwide, comprehensive better school-to-work transition system, which would include a Youth Apprenticeship program; as well as a \$1.2 billion increase for a new worker adjustment program; permanent extension of the Targeted Jobs Tax Credit; \$133 million to begin expansion of the Job Corps program by 50 new centers, as well as \$30 million for the maintenance of existing centers; and \$150 million to begin the development of "one stop shopping" career centers, to streamline access to job and training information.

The proposed investment package will help us to take the important first steps in creating a comprehensive, nationwide school-to-work transition system, which will better serve the needs of those students who enter the workforce after high school. We lose too many students in the chasm between school and work, and consign those with low skill levels to low-paying, dead-end jobs.

America's economic future depends on making full use of the skills and abilities of all its workers. Our ability to compete in the global economy depends increasingly on the productivity of a world-class workforce. But we can learn important lessons in workforce development from other industrialized nations. Many of these countries run tough, rigorous systems of technical education that prepare students for well-respected, well-paying careers. The President is planning to develop a Youth Apprenticeship program—a nationwide system of school- and work-based learning programs for high school students, to enable them to make a successful transition to productive careers in technical occupations. But even the best training system in the world will be useless unless jobs await the well-trained. And this requires that American businesses fully utilize the talents and energies of our front-line workers. We will encourage U.S. businesses to become high-performance workplaces, by helping firms adopt and effectively implement high-performance organizational principles.

We need to continue to support what works—proven programs like Job Corps, which provide severely disadvantaged students with remedial education, occupational skills training, and supportive and job placement services. Our proposal provides \$133 million in fiscal year 1994 to begin financing an expansion of the Job Corps program. Our goals are to add fifty new centers to the current 110-center network by the year 2001, and to increase the number of Job Corps members to 104,000, up from the current 70,000. Our proposal also provides \$30 million to ensure that existing centers remain healthy and safe environments.

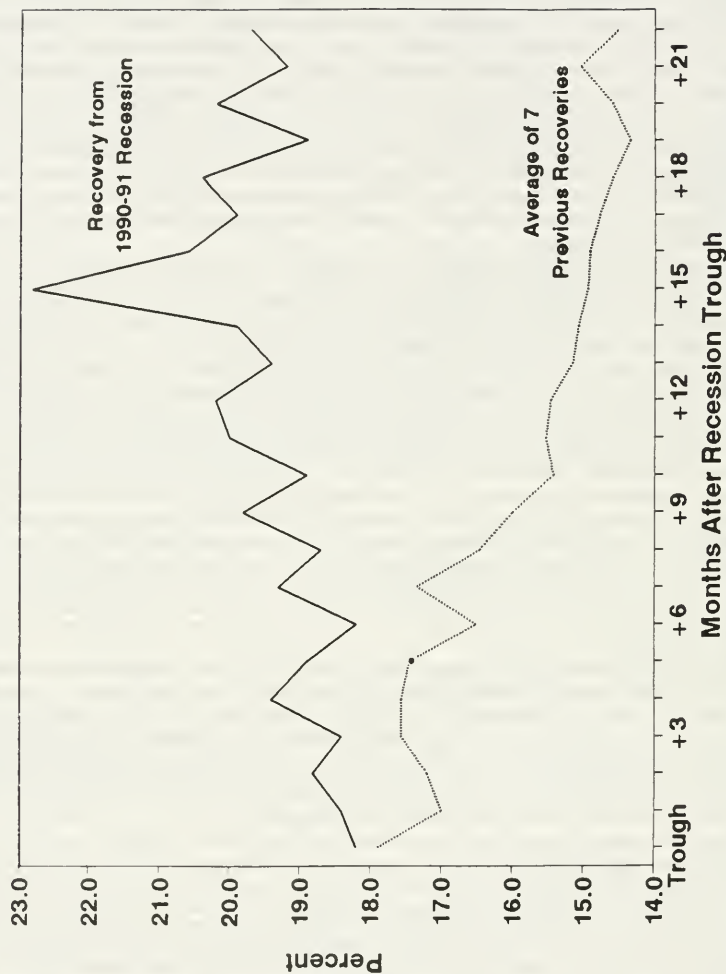
We also need to help what works, work better—and to streamline or eliminate what doesn't work. Currently, for example, we fund a confusing array of Federal programs to deliver job and training services to Americans—each with its own funding mechanism, eligibility criteria, and range of available services. Developing "one-stop shopping" career centers would greatly help Americans seeking information about their skills and about job and training opportunities, by providing access in central locations to career counseling and guidance. The result: more effective use of Federal resources, and better access to relevant information to adults seeking to change jobs, careers, or to develop new skills.

We can also do more to address the needs of dislocated workers and, in doing so, to make our resources themselves less fragmented. Our goal is a universal, comprehensive approach to helping workers who lose their jobs, for whatever reasons—whether due to industry restructuring, international competition, defense cutbacks, or environmental protections. This approach would build on the most effective elements of our current programs to give dislocated workers access to a broad array of services designed to secure reemployment or to train for new careers.

Of course, we risk losing all these investments if we do not work to bring the deficit under control. We are making sure the Department of Labor is helping to pay the way, through eliminating ineffective and wasteful spending, reducing Federal staff, and eliminating many perks for senior officials.

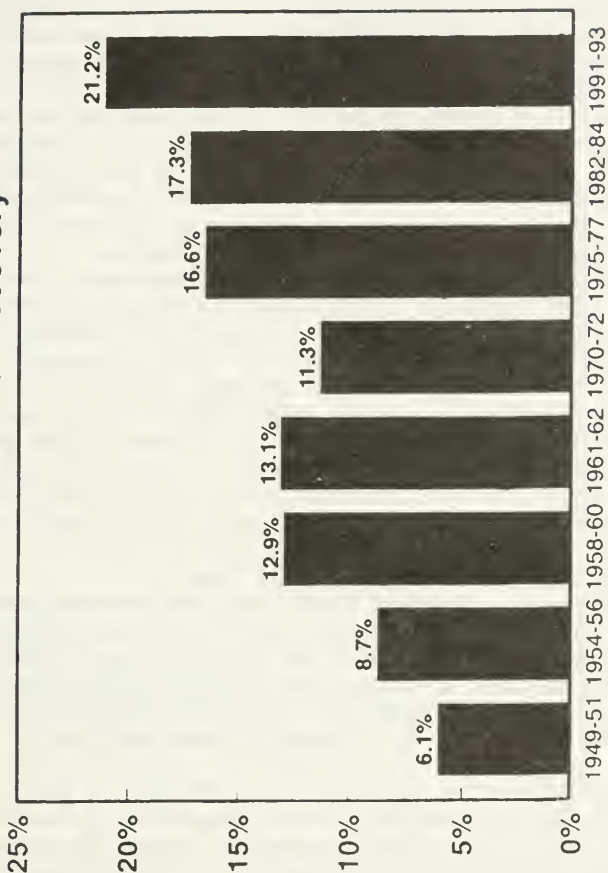
Mr. Chairman, Members of the Committee: We stand at an extraordinary moment in our nation's history, with an unprecedented opportunity to create lasting change in our economy and in our approach to job training and job creation. I look forward to working with you on the Administration's historic budget proposal and on future initiatives to ensure the well-being of all Americans who work, who want to work, who must work. This concludes my prepared remarks. I would be pleased to answer any questions.

Unemployment Rate, All Teenagers



*SOURCE: BLS DATA
1/31/93-PREPARED BY
JOINT ECONOMIC COMMITTEE

Long-Term Unemployed* As Percent of Total Unemployed After 22 Months of Recovery



Recovery Period

* Persons unemployed 27 weeks or longer.

*SOURCE: BLS DATA
1-31-93, PREPARED BY
JOINT ECONOMIC COMMITTEE

Chairman SABO. Thank you very much for your testimony.

I come from a State with a very extensive vocational-tech program—I think one of the more extensive ones in this country, with training sites scattered throughout our State. I am curious how your programs, basically out of the Department of Labor, relate to programs which fundamentally relate to the Department of Education. Clearly that system is a place in our State where numerous students go immediately after high school; it is also heavily involved with older students who are in jobs. In those schools, many students are on a part-time basis developing their skills. That coordination, that is something I am curious about. Generally, I have a sense it has not been that good in other programs.

Secretary REICH. I have heard that the Department of Education and Department of Labor in past years have been pulling in opposite directions. I can assure the committee and assure you that Dick Riley and I are working very, very closely together.

On school-to-work transition, for example, our staffs are working very closely together, coming up with a precise design for how to encourage States like yours—Minnesota is one of the leaders in terms of creating these school-to-work transition programs. But, again, we need national standards, national certification standards, in broad fields of competence so kids can go from one State to the other. They can show employers they have a certified competence. And we can make sure there is quality there.

Again, Minnesota is one of the leading States. Oregon is a leading State. There are a lot of terrific programs there. Dick Riley and I are working closely to be sure we can create a national system premised on the best of what is happening in the United States.

Chairman SABO. Will you have the flexibility for States to adjust with different patterns in the degree that that type of existing training is developing?

Secretary REICH. Yes. We are not envisioning—I want to stress this—we are not envisioning a new bureaucracy, a new layer, or anything. The school-to-work program essentially consists of, number one, national education standards and skill standards and occupational skill standards with regard to these areas of competence.

Number two, some seed money, matching grants for States with regard to developing school-to-work transition programs, with their community colleges, with their technical institutions, sometimes with their proprietary institutions, but making sure business is brought into the process so these jobs are actually there when kids finish their training.

It is partly a curriculum design issue. It is partly a workplace learning issue. We are intent on matching the two. So we are going to build on what is out there.

Chairman SABO. Mr. Kildee?

Mr. KILDEE. Thank you, Mr. Chairman.

Thank you, Secretary Reich, for being here with us today.

As a follow-through on the Chairman's question here. How do you see the youth apprenticeship program being proposed by President Clinton will be integrated with our K-12 school districts and community colleges? And could you tell us maybe more specifically

how you envision the cooperation between your Department and the Department of Education?

For many years, I have been suggesting to Secretaries of Education and Secretaries of Labor to get at least one phone line between the two Departments. They certainly serve the same people. They very often have not communicated well. How would you envision the K-12, particularly high school, being tied in to the apprenticeship program, and community colleges. Also, how do you foresee the cooperation between the two Departments?

Secretary REICH. Let me start with cooperation. That is absolutely essential.

Dick Riley and I are old friends. We are working together. We are pledged—we are almost like Bobbsey Twins these days. We have a meeting tomorrow. We had a meeting earlier this week. We had a meeting last week.

Our staffs are being melded together. Not only are our personal staffs working together, but we are actually getting the line staffs to work together, line staffs that may not have worked together with quite the enthusiasm they are now working together, given that we are creating that kind of enthusiasm from the top.

So with regard to the school-to-work, we are at this point designing a program that is a seamless program. The current conception is that in grades 11 and 12—again, I don't want to get too far out ahead of my—of Secretary Riley with regard to a design—but here is one possible design we have been working on.

In grades 11 and 12, all students are mainstreamed. You don't create a separate vocational track which stigmatizes students. All students are mainstreamed through a program which, after they have received fundamental skills, fundamental training in reading, writing, communications skills and so forth, they have problem solving, critical thinking, independent learning skills.

There is an internship of 3 months in which they are really working out there either in the community or with businesses, not that far removed from a summer job that many of them now have but trying to integrate a little more closely. And then, for students who don't want to go on to university or cannot afford it, there is the option of an apprenticeship-like program.

When I use the term apprenticeship, some people get a little nervous. I don't want to in any way dilute the very, very able efforts that our trade unions have had, particularly that the American construction unions have had. They have had certified apprenticeship programs which have worked extremely well.

This is going to be a parallel track. This will give a lot of those young people graduating from high school another track toward certification in a broad skill area. Again, we are going to be working on that. One design, again, is that you have 6 months or a year in which you have classroom instruction and then 6 months or a year interspersed with classroom instruction in which you have training on the job.

The two—the curricula of one and the experience of the other are put into one package. That is what we are going to try to encourage with grants. We are going to pick States that are really leading States with regard to work that they have already done,

encourage them even more, and hopefully, we will set up a whole set of models for the rest of the country.

I want to emphasize again this is not going to be, and I don't want this to be, a Federal bureaucracy. This is not going to be a top-down program. A lot of States are already doing it. We simply want to provide standards, norms, a framework, seed money. We want to encourage a trend that is already in its beginning stages.

Mr. KILDEE. I will be pleased with your cooperation with Secretary Riley. As you know, I serve on the Committee on Education and Labor. In past years there have always been proposals to separate Education and Labor and have separate committees. We are not doing that. They are tied very closely together. I am glad to see in a new administration that you are having close cooperation.

Let me ask you one further thing, Mr. Secretary. You mentioned JTPA. I would like to work closely with you as a member of the Committee on Labor and Education and a member of the Committee on the Budget on JTPA. I am not satisfied at all with the way JTPA is working. We do spend a lot of money there. I think we ought to really give a very, very good look at that program in its entirety and see what we can do to really give those services that JTPA was set up to give in a better way.

Secretary REICH. I look forward to working with you as well, Congressman. I don't want to give, and didn't intend to give, the impression in my remarks a moment ago that I felt the program was a failure; that it was not doing its job. It is just that there are enough studies raising questions about the effectiveness of the program that it makes me pause and has made the President pause and freeze the program until we can make it better, design it better, and come up with something that evidently works better.

You may have seen the Eisenhower study that came out recently—the Milton Eisenhower Foundation summarized many of the studies with regard to adults, particularly female adults. The JTPA Title II seems not to be working fairly well with regard to young teenagers or people between 16 and 20 years old who—particularly for males it doesn't seem to be working well—in fact, there is evidence that it is actually a handicap because there is a stigma attached to many of those programs.

There is some evidence in certain places around the country of what you might call skimming the cream, that is, taking people, disadvantaged, who are most likely to get jobs and placing them and getting credit for placing them when, in fact, those people would have got jobs anyway.

I want to emphasize that, in some places around the country, my overall impression is that the program is working pretty well, but I want more evidence. There are question marks that are being raised, and I, as Secretary of Labor, am intent on doing something about it. I am willing to work with you on that.

Mr. KILDEE. Coincidentally, I am at the same point as you are on JTPA right now and look forward to working with you.

Thank you, Mr. Chairman.

Chairman SABO. Mr. Smith?

Mr. SMITH OF MICHIGAN. Thank you, Mr. Chairman.

Secretary Reich, it seems to me we are all after the same goals of reinvigorating the economy somehow—including the use of govern-

ment—to the extent government can do that. We are for good jobs. Maybe my question is somewhat biased, but how do we go about having a business climate that is profitable enough that new people will start going into business, risking their future? That existing business will decide to expand and invest in new equipment and machinery rather than just trying to get by the last several years until they retire?

It seems to me that somehow there has to—when I got out of high school back in 1953, the businesses were glad to do what job training there was because there was a strong demand for more workers—there has got to be a balance here. I don't hear that balance coming from you.

Secretary REICH. Let me fill in the balance with a bunch of other initiatives. Again, I look forward to working with you and other members of the committee and other Members of Congress on this.

As you know, in the President's economic package there are a number of tax incentives for businesses, particularly small businesses. We know small- and medium-sized businesses are the engines of job growth.

Many of our large businesses or large companies are slimming down in recent years. I am not blaming them. Maybe it is time they do slim down. Many of our small- and medium-sized businesses are generating jobs in general terms, not right now, not at this point in time. Almost nobody is generating jobs. That is where the job growth came from over the past 10 years.

The President's plan provides a bunch of tax incentives, investment tax credits to small businesses, flat investment tax credits, a long-term capital gains exclusion with regard to investments in a small bills over 5 years. No incremental tax credits.

Mr. SMITH OF MICHIGAN. Will you consider it longer term than the 2 years for the larger businesses on investment tax credit to excite more investment?

Secretary REICH. In terms of incremental investment tax credit. In our judgment—the President's judgment was the 2-year period with regard to the incremental investment tax credit was just about right. After 2 years, all the studies that we had with which we advised the President showed that, after 2 years, not only did you not get the payoff from an incremental investment tax credit but also you had so many problems trying to determine the base period in which you are determining the incremental tax credit that it almost didn't—just didn't make any sense.

The small businesses, again, I think did not do anything. You can come up with an incremental tax credit that makes more sense for the small businesses. That is what we want.

Let me go on for a minute. American business has been handicapped by two things in addition to capital costs. Obviously, perhaps, it goes without saying, but maybe I will say this anyway: You need both the investment tax credits but also to bring down the budget deficit so you can free up capital and bring down long-term capital costs. That will help small- and medium-sized businesses.

There is a little credit crunch. We know bank examiners—maybe there is a little overreaction to some of the past within the ambit of safe and sound lending. It is possible—and I want to emphasize

possible—that bank examiners could be allowing a little more lending to small- or medium-sized businesses.

What I was starting to say is, you also need an educated and trained work force. The reason you have in the fifties—that you had in the fifties a great demand for people is you had an industrial structure which, basically, was premised on high volume, standardized, stable mass production. Those were the big factories, big engines of the 1950's.

In a new global economy where you have technologies that are changing so constantly, product mixes, services, you cannot rely on that any more. You have to train people. You have to educate people.

MR. SMITH OF MICHIGAN. But business still—excuse me—if the business were strong enough, if their—I know profit isn't—there has to be a better word. But if the motivation of that business were strong enough and success was rewarding enough, business would be retraining those people. We have to improve our education system to minimize that retraining.

Secretary REICH. We have—

MR. SMITH OF MICHIGAN. For government to come in and say, look, we are going to retrain, my experience, whether CETA or JTPA, hasn't been good with government trying to do it.

Secretary REICH. \$30 billion being spent by business a year on retraining, \$30 billion. That is great. That is a respectable sum.

The problem is, according to all of the studies, \$20 billion of that \$30 billion is spent on training for people that have college degrees, your top echelon managers and executives. Only \$10 billion of the \$30 billion, one-third, is spent on the 75 percent of your work force without a college degree. You have a tremendous imbalance in the businesses themselves in terms of who they are training.

In fact, a study came out today by the Economic Policy Institute showing that other countries' businesses, private sectors, are spending much more as a percentage of their own payrolls and also as a percentage of national product on training the non-college educated.

One other point here, and that is that American businesses understandably are reluctant to train people in broad skills, which an employee can take and then go down to a competitor down the road. This is inevitable.

I mean, that is why we as a Federal Government fund all sorts of things, because the private sector cannot reap the direct return on certain kinds of investments. That is why we fund basic research and development, for example, because for basic research and development, the returns go to everybody.

It is the same thing with basic training. The returns go to everybody, because you can't force the employee to stay there if the employee doesn't want to. The employee simply can go anywhere, and that one individual business doesn't reap the returns.

If you have more particularized training, the more specific the training gets to that business, the more likely it is that the business is going to do it. But that is why government has a role to play in providing the basic skills, the basic training, post high school, and that is what we are talking about.

MR. SMITH OF MICHIGAN. Can I finish up with one trick question?

Secretary REICH. Not a trick question.

Mr. SMITH OF MICHIGAN. Do you think there would be job loss if we raised the minimum wage to \$8 an hour?

Secretary REICH. To how—

Mr. SMITH OF MICHIGAN. Do you think there would be job loss if we raised the minimum wage to \$8 an hour?

Secretary REICH. Well, I can't say anything about \$8 an hour. I can tell you that the studies that I have seen, the studies from colleagues of mine back at Harvard that have looked at this and other labor economists is that you could raise the minimum wage from \$4.25 right now—which, by the way, in inflation adjusted terms is below what it was in the 1970's and 1980's—you could raise it to \$4.70 without having any effect on the job market at all.

Now, beyond that, I don't know. There is a good reason to believe that if you combined an increase in the minimum wage with an increase in the earned income tax credit, which is what the President is proposing, then you can provide at least a cushion, at least a floor for many Americans.

Eighteen percent of Americans, 18 percent, almost one out of five full-time workers are now working for wages that will not keep a family of four out of poverty. This has never happened before in the history of our statistical gathering about the labor force. Eighteen percent of our full-time workers.

These are people who are playing the game exactly as we want them to play the game. They are not able to keep a family of four out of poverty. So we have to do something, a combination of minimum wage and earned income tax credit to make work pay, to make it profitable for them to actually be in the work force.

I think we all agree that it is more important to keep people in the work force than to create incentives for them to be outside of the work force.

Chairman SABO. Mr. Coyne?

Mr. COYNE. Thank you, Mr. Chairman.

Secretary Reich, in your presentation you indicated that you are looking forward to the new economy, and many of these programs are going to be geared toward the new economy, these training and re-education programs. What is your vision of the new economy? What is that, and what does that mean?

Secretary REICH. Well, if present trends continue—let's assume that we all sat back and did nothing. Let's assume that we just allowed present trends to go on. What you see is a very, very large number of jobs being created in retail services, restaurant, hotel services, hospital services at the very low wage levels, transportation services, all of your street level services in which people are going to be getting wages that are not much higher than the minimum wage. And then you have the top 20 percent, or 25 percent who graduated from college, and increasingly, they are in greater and greater demand in the global economy; they can use technology, they can solve problems, and their wages are going up because supply and demand is on their side.

So you find a segment of our wage force earning more and more. They are normally in offices, in glass and steel towers; they are called management consultants or lawyers or investment bankers or manufacturing engineers or design engineers or advertising ex-

ecutives or journalists. Whatever you want to call them, they are solving problems. They are on the upward escalator. But the gap between the two populations, the population that is solving problems in the office towers and the population that is at street level, basically doing the retail, restaurant, hotel, hospital, all of the relatively custodial, routine jobs, the gap begins to grow wider and wider and wider. You create a two-tiered work force, which is what we already have in many of our major cities. That is if we did nothing.

The question is, what happens if we actually get serious about education and training, and also, on the employer side, creating incentives for employers to change the nature of the way they use front-line workers. I think it is possible that we can re-create a middle class in this country, and we can create upward mobility for people at the bottom. There are jobs out there.

If you look at other industrialized nations like the former West Germany, you see there is an entire tier of technical pre-professional workers, of technicians, doing all kinds of things, both in the factory and also in the service sector that we don't even do in this country. I could describe them for you if you wanted, and if we have a while—but again, the vision I want to give to you overall is that our long-term problem is not so much jobs, although it is a problem; it is the quality of the jobs, for 75 percent of our people.

MR. COYNE. Is manufacturing going to play an important part in this new economy? Are we going to have to make things as a Nation?

Secretary REICH. Well, manufacturing, again, if we did nothing and let manufacturing go the way it is going, manufacturing continues to be about 25, 20, 21 percent of our Gross National Product. It is just that the number of people involved in manufacturing continues to shrink. We are now down to around 18, 17 percent of our population engaged in manufacturing. We are getting to a point in which the distinction between manufacturing and services is beginning to blur.

Take any given product. More and more of the value added—take this pen. More and more of the value added in making this pen is the design engineering and the manufacturing engineering and the sales and marketing. Less and less of the value of making this pen is actually the machinery, the plant, the production. Now, that is almost inevitable. That is happening all over the world. But it means we have got to make sure that people are trained to do all of the design, manufacturing engineering, all of the design engineering, all of the sales, marketing, all of the maintenance, all of the other things that go into making this product.

Now, what is called manufacturing and what is called services is a semantic issue. The question is the quality of the job.

MR. COYNE. Thank you.

Chairman SABO. Ms. Woolsey, our newest member of the committee.

MS. WOOLSEY. Mr. Secretary, it is nice to see you again.

In the 8 weeks since I have been sworn in as a new Member of the House of Representatives, I have heard you four times.

Secretary REICH. You are a glutton for punishment.

Ms. WOOLSEY. No. It is both a pleasure and a privilege to listen to folks like you. And I also want to tell you that as a member of the Labor and Management Subcommittee, your message to us today is the same message that you gave us then. You stay on message and you don't change for your audience, and I really respect that.

I have a question, and my question has to do with the dialogue that was going on before you started speaking about the timing of the budget. We are looking at a summer youth program. Is it not important that we get our budget passed so that we can get on with this summer youth program? Would we not need to meet a deadline date that would make that program not possible?

Secretary REICH. It is important. The more advanced warning we have that we can give to cities and poor rural areas, the better.

Last year, last summer's program, there was not actually an appropriation until mid or late June, and even then, there was a summer program that didn't use up all of the funds that were available, and many cities did a credible job.

In fact, I just got a report from the Inspector General stating that last summer's program for disadvantaged youth was a success. But we want to make it much better. And if we want to spend the additional money and spend it well and get to 1.3 million young people, the sooner the better.

I would like to be able to go to States and poor rural areas and say at the beginning of April, we have the program, Congress has appropriated this money, start right now to plan, make this a good program.

Ms. WOOLSEY. Thank you.

Chairman SABO. Mrs. Kennelly?

Mrs. KENNELLY. Thank you, Mr. Chairman.

Thank you, Secretary, for coming. I hear you very clearly when you talk about the young people in this country that won't be going to college and the need to prepare for the jobs that they are going to be called on to do. I commend you, and I think we are going to be able to do that. Because, as you said, what do they train for?

Well, we have another generation of workers, and those are the workers that were highly skilled workers who worked in our defense factories, provided for our national security, and were very well paid and doing a good job. What do we say to them? What does a person like myself say when I say I am the Congresswoman? I am fighting to get taxpayers' dollars for conversion; I am trying to get reinvestment from the defense budget into job training. And I get that training. Training for what, Congresswoman? What am I supposed to do? I am being laid off.

How do we answer that, Mr. Reich?

Secretary REICH. Well, we need to have in this country a much better labor market system in which people who are being laid off—and again, whether it is defense workers or people who are being laid off from IBM, highly skilled people, people who are losing their jobs from international competition, regardless of the reason, you are absolutely right, there are a lot of highly skilled people who need to change jobs and need to get additional skills.

We need to get them the information as well as counseling, as well as knowledge about what skills they need to retrain for, and

those skills need to be related and ideally build upon the skills which they already have.

For example, take an aerospace engineer who has been working in defense. There are some civilian areas which are relatively closely allied to aerospace engineering in the defense area. We could, if we used government data and used government data more effectively, be able to describe to those people those industries that could use skills that are closely allied to the skills they already have, skills that they could get without too much training, and which would provide them with reasonably good jobs, jobs which are almost as good as the jobs that they had.

And again, environmental remediation—you have tremendous need in this country for the building of environmental systems, systems engineering. We have people right now, manufacturing engineers and aerospace engineers who know an awful lot about systems engineering for environmental remediation.

Now, can we create a program and a training program that targets those two groups? That is the people who are losing their jobs and the areas where you need skills. We might be able to do that.

To take another example, there is a growing need in this country for engineers who are going to upgrade computer equipment and do the systems integration for businesses. You know, businesses in the 1980's took in a huge amount of computer equipment. The investments they made in information technology were enormous. Now you have businesses all over the country that need people to integrate all of these computers, to upgrade them, to maintain them.

Well, there are an awful lot of highly skilled people who know an awful lot about computers who are in military related industries, who ought to be moving into that sector of the economy where there are going to be jobs. But we don't have in place—and this is something that I want to try to help create—we don't have in place a system, a labor market system that gives people that kind of information, that shows them where they can get the training and where those jobs are.

That is why the one-stop shopping we are proposing is so important. That is why the creation of a coherent, across-the-board training system, regardless of why you lost your job, is so important.

Mrs. KENNELLY. I just thought of something, when you said one-stop shopping. We had a meeting this morning, a group of us got together about the budget. This one-stop shopping, do you think you can put that in place rather rapidly, or is there going to be a time lag to get this kind of up and going?

Secretary REICH. Well, in the first instance, that is in fiscal year 1994, we can do it using a group of people who have not been utilized very well who are actually out there in the field already, give them more duties. Those are called the Employment Service. Right now the Employment Service, all they do, basically—and I don't mean to be derogatory, they do a very good job—but they are matching people with jobs that are already listed. The Employment Service people, if we gave certain matching grants and upgraded those positions and created incentives for States to upgrade those positions, those positions could be the point at which individuals

who had lost their jobs entering the unemployment system could get the kind of direction they needed.

Now, over the longer term that is probably not going to be enough. By 1995, 1996, 1997, hopefully—

Mrs. KENNELLY. We need them now, sir.

Secretary REICH. We need them now.

Mrs. KENNELLY. Good. That was my argument this morning.

Secretary REICH. We need something right now for these people, but I want to draw your attention to the emergency unemployment extension. Because in the emergency unemployment extension, we have the beginnings of that kind of an integrated system.

I mentioned before, we have an amount of money we put in there which will allow States to start putting the unemployment insurance together with the skill training, together with the information and counseling, identify the individuals as fast as they can who are going to be long-term unemployed and get them out to where they are needed.

Let me just mention one other thing. By far, the most effective way of helping people get new jobs when they are laid off is to get to their place of work before they leave. And this is why the warning system is so important.

I was concerned and distressed to learn just last week that that WARN system, according to a recent GAO study, is not working effectively. Only half of America's employees are covered by that system, and only half of the employees who are covered by the system actually are getting the full 2 months warning.

Well, it is very hard for State agencies and for Federal agencies who are involved in providing SWAT team kind of efforts to help those people, get in to help those people if there is no warning. Hard for people to help themselves if there is no warning.

Mrs. KENNELLY. I guess quickly, you know, you have mentioned Motorola as an example of doing a very good job in job training. Is there a possibility—and I am just thinking out loud—that some of our defense industries could do training like a private company like Motorola has done really quite well, the training, the retraining, the expansion of really jobs is what we are after.

Is it possible that we somehow could use these—we've got incredible amounts of floor space, we have got buildings, we have got machines, we have got computers. Is there any way we can plug that in so that we don't have to reinvent the work site?

Secretary REICH. The only difficulty—I would hope that that was possible—the only difficulty with asking defense contractors to do training for civilian work is that we have discovered over the years that many of the defense contractors and the technologies and skills that they develop are not sufficiently related to civilian skills, that there is not enough of a potential carryover.

We don't have enough dual-use technology built into the defense structure right now. In fact, there are a lot of defense contractors that are also civilian contractors, so one doesn't affect the other because they realize how different defense and civilian work is from each other. But we could focus on those areas of defense contracting where there were dual uses, both defense and civilian, and target those. There may be certain factories that are producing defense-related bolts and sensing devices that could have civilian

uses. Maybe those factories could be converted. I am a little bit skeptical, but I think it is possible.

Mrs. KENNELLY. Thank you, sir.

Thank you, Mr. Chairman.

Chairman SABO. Mr. Price?

Mr. PRICE. Thank you, Mr. Chairman.

Welcome, Secretary Reich. We appreciated your recent foray into North Carolina to speak to some 1,000 of our civic and business leaders at North Carolina's State University's Emerging Issues Forum, and we also of course welcome you to the Budget Committee here today.

You have already indicated that your testimony, much of it, is at the intersection of your own Department and the Education Department, and my questions I think are at that same intersection, perhaps pulling in the National Science Foundation as well.

I want to talk about the level of training that is taking place in our 2-year colleges, our community colleges. And part of my question has to do with how many of our jobs are requiring that level of training now, especially how many of our new jobs are going to require that level of training, and also how we can utilize these community colleges to provide higher quality training.

We tend to dichotomize I think the college educated and the non-college educated. In fact, you did that in some of our statistics. But increasingly, we have students coming through without the 4-year baccalaureate degree, but nonetheless with training beyond high school, which is critically important to their job prospects.

I remember at a hearing before the Science Committee a few years ago here when we finally managed to get the Education Secretary and the Director of the National Science Foundation to make a joint appearance, and we talked a good deal that day about overlaps, duplications between the programs of those two agencies. But then when the question came, what are either of you doing, what is really falling through the cracks these days, Eric Bloch, I think it was, shot back immediately, "Advanced technical training." And by that he meant the kind of training that goes on in those 2 years past high school, which increasingly is sophisticated, which increasingly does require some attempts at upgrading and at dissemination. So that we are not reinventing the wheel in every State and in every community college system, but there really are some national efforts going on to upgrade curricula, to develop model teaching methods, model public/private partnerships, whatever it takes to bring education at that level into line with the demands of the modern workplace.

We did manage in the closing days of the last Congress to pass a bill that I had worked on for 4 years, the Advanced Technology and Scientific Education Act, which we hope will get the National Science Foundation into the business of working with these community colleges and developing that new generation of curricula and teaching methods. But of course that is only one piece of a much larger challenge.

So that is my question to you here today, as we think about the requirements of the new jobs that are coming on line, and as we think about the kinds of tools we have in our tool bag for attacking

this problem, what would you say about the role of the community colleges?

Secretary REICH. The community colleges have done an outstanding job around this country to prepare young people who can't go on to a 4-year college. The community colleges are handicapped in two ways, and this goes back to our school-to-work transition ideas. They are handicapped, number one, because the business community is rarely sufficiently involved in developing curricula and targeting areas where those students really are needed in technical competencies that are needed. Some community colleges are still operating curricula that are obsolete or outmoded.

The business community does need to be more directly involved, and that is why we need to think more in terms of almost a youth apprenticeship model in which you are blending curricula such as community college curricula with on-the-job training.

You know, where I come from up in Boston, Northeastern University, not a community college, but Northeastern has pioneered a system of cooperatives in which there is work study, students spend a term or 6 months off doing work, and then come back and that work is related to the work they do in the classroom. And we have got to develop more of those kinds of programs. Community colleges could move more in that direction.

The second reason they are handicapped is that many of the certificates, the associate degrees that community colleges give, do not inherently signal competencies that are recognized around the country, except in the health care field. Community colleges have done an outstanding job, and those health care associate bachelor degrees do have certificates that lead to health care technical fields and are recognized around the country.

But this again is why we are so intent on developing national technical standards so that community colleges or technical colleges, or even proprietary schools or whomever can gear their curricula voluntarily and students can gear their careers voluntarily to areas of technical competence that really are in demand, and the business community would be involved in developing those standards and those curricula.

Mr. PRICE. So that is of course the very powerful rationale for these business-education partnerships that are developing in some of the States, but to which I think we need to encourage—

Secretary REICH. We need to encourage more of them. North Carolina is a good example. I enjoyed my trip down there recently. And as you know, there are an enormous number of developments with regard to business and education partnerships. We just have to give more fuel to the fire.

And I think businesses around the country are willing to do more, and community colleges, junior colleges, technical colleges also are willing to do more, but they need a little bit of leadership and structure and norms and standards. They need to have some guidance, and that is what we ought to provide.

Mr. PRICE. What about this problem of dissemination in ensuring some kind of ripple effect? I think it is fair to say that what we are hoping to undertake with the National Science Foundation, involving some of our strongest institutions. We hope to have centers of

excellence at 10 schools around the country that will really be pioneers in developing these new curricula and methods.

But then there will be the problem of making certain that that has some kind of broader effect throughout the system. Do we have the kind of dissemination at work and in place to ensure that? Right now, what happens when innovative programs are developed? Is there a mechanism by which those are picked up around the country? How much of a part of the problem is dissemination?

Secretary REICH. Well, dissemination is a part of the problem, but again this is where national standards come in, because if the business community is involved in helping to establish national standards and helping to define the areas of technical competence that the business community really does need, then almost by definition, usual disseminating, because there is a need there, the demands side of the equation is already being fulfilled. Unlike the National Science Foundation, for example, where you are developing technical competencies, or you are developing areas that may not have direct, immediate applications on the job. Here, we are talking about getting the business community involved in setting technical competencies where there is a perceived need. As long as the demand side of the equation is there, we don't have to worry about dissemination.

You see, my concern is that we can go on creating education and training programs, but you still have to make sure that there are jobs awaiting the people who are trained. Unless you get supply and demand working together, you have got a well-trained group of people, a well-trained population that may have nothing to do.

Mr. PRICE. Certainly. And I would think that kind of feedback, that kind of correlating of demand with the educational programs, I would hope that would be part of our strategy, whether it is in the National Science Foundation or the Labor Department or wherever.

Thank you very much.

Chairman SABO. Mr. Allard?

Mr. ALLARD. Thank you, Mr. Chairman.

I also welcome you to this committee. I just would like to share with you my background. I come from a small business, and I would agree with your statement that small business is the engine of growth for new jobs.

I think that the biggest problem facing small business is the regulatory burden. Are you going to try and do anything in the Department of Labor to address the issue of the impact of regulations on small business?

I am not the only one that shares this belief. I go back into my district and every day I hear somebody make the statement that, you know, every time I turn around, I have a mountain of paperwork that I have to deal with.

Secretary REICH. Undoubtedly, Congressman, we have to reduce the paperwork and get the regulatory burden down. That is why the Clinton administration has—well, really the only regulation, the only statute, enabling statute so far promulgated or enacted by Congress and the Clinton administration is the family medical leave, but of course small businesses are exempt. In fact, that

means about 95 percent of American businesses are exempt. It only covers about 40 percent of employees.

Some people say that is where the problems are and we shouldn't exempt small businesses from family and medical leave, but the Clinton administration's position was, just as you are suggesting, that small businesses do need to have a little bit of an extra help with regard to some of this government regulation, and if they see that larger businesses are doing something that ultimately is profitable—and by the way, I think family medical leave is profitable, because it leads to more loyalty and more commitment on the part of employees—if small businesses see that, then small businesses may follow right along.

Mr. ALLARD. Well, if you are in a real technical area in a rural community, family and medical leave, for example, doesn't work very well, because it is hard to have somebody with that technical expertise who is willing to come in and provide some relief for a short period of time until your regular employee's family is in a position where he can return back to work.

So there is a real problem with rural areas, and small communities on regulations. They just don't have the resources to respond. And this not only has to do with the businesses themselves, but also community governments, special districts and cities and counties, and I am talking about a county that maybe has a total population of 1,200 people. They are having a lot of problems meeting their requirements of law. So this concern not only comes from small business, but it also comes from a lot of small communities, particularly in rural areas.

I also have a concern on welfare and I note that your—and appropriately so, that your Department has a lot to do with getting people trained. Have you given any thought about what you can do with people who are on welfare and getting them trained to assume some meaningful employment?

Secretary REICH. Well, about 25 percent of the people who are now gaining job assistance and getting training under Title II of the Job Training Partnership Act are welfare recipients. There is also the JOBS program that is administered by HHS.

As I said in my opening remarks, we have an enormous and growing problem in our inner cities, in our poor rural areas. There is absolutely no question about it. The problem is not just education and training. The problem is jobs. I mean, our manufacturing base is no longer in our urban areas. Jobs are not there any longer.

In fact, a fast food chain—I won't mention their names for fear of embarrassing them—but one of the prominent American fast food chains is paying its young people in the central cities about \$4.50 an hour, but paying young people out in the suburbs to do exactly the same work \$7.50 or \$8 an hour. And so what we find is young people in the central cities are busing out early, early in the morning to get those jobs and then coming back late at night.

You can't train people in the central city for jobs which don't exist. And in fact, this is the subject of a discussion that Henry Cisneros and I had this afternoon. Now, do you build jobs into some of these poorer areas so that there is some reasonable aspiration that some of these young people and also even older people can have for why they should get training.

Mr. ALLARD. Are you looking seriously at enterprise zones for those areas?

Secretary REICH. Enterprise zones are part of the Clinton economic proposal. Enterprise zones are definitely one potential set of answers.

Another potential set of answers, not exclusive, not inconsistent with enterprise zones is rebuilding communities, is developing for young people skills in the construction trades and actually getting out and rebuilding homes.

Up in my community in Boston early this week I visited something called Youth Build, a program in which the young people who have had—very many of them have had troubled lives, worked together on teams, refurbishing houses, rebuilding old homes that are abandoned, creating homeless shelters, sometimes for themselves. That is a program that is being managed and developed by the building trades in Boston. And young people are coming out of that with skills, and they are also rebuilding their communities.

Mr. ALLARD. With welfare, many are single women with some family obligations, and there needs to be some child care as a part of job training, as well as some educational opportunities. I wonder sometimes if in our welfare system there is enough emphasis on jobs and trying to get people trained for jobs. I wonder if perhaps it wouldn't be better in the Department of Labor for you to qualify people and to manage their training and everything right from the very start. Have you ever given that much thought?

Secretary REICH. I haven't given much thought to where responsibility ought to lie for these programs, but I can tell you that part of the administration's welfare proposal—and the President reiterated this during the campaign over and over—would be a proposal in which people, able-bodied people could have 2 years of welfare, but then they would have to get a job and get training, and that a job, even a public job would be better than no job. Even a job in which they are providing some degree of public service, cleaning up parks, maintaining home health care services, is better than no job, and that is indeed part of the proposal that is being worked on now.

Mr. ALLARD. Well, you know, I have worked—I guess I am running out of time—but I have worked at the State level with counties, with the Private Industry Council and getting people qualified to come off of welfare, with a work and training program. It has been somewhat successful. Actually, the reason it worked is because we had people involved from the Department of Labor who were into training. So I hope you will give that some thought.

Thank you.

Chairman SABO. Mr. Pomeroy?

Mr. POMEROY. Good afternoon, Mr. Secretary. For years I have enjoyed your macroeconomic analysis of what was happening to this country vis-a-vis our global competitors, and so it is kind of a macroeconomic question I have for you to start out with.

Some of my colleagues in the House believe the President's stimulus package really isn't sufficient to do much good in the context of our total economy. I note that these tend to be the same people that felt that any action in recent years as we slid into this pro-

longed recession was also inappropriate, so it is not a new song we are hearing from them.

Particularly from your vantage point now as Secretary of Labor, do you believe there can be meaningful job creation and meaningful future investment in the creation of relevant and societal, meaningful jobs through the President's stimulus component?

Secretary REICH. Well, the stimulus proposal, the \$30 billion stimulus proposal was designed, as I said, to get the economy back on track, to create jobs not only directly in terms of all sorts of jobs that are specifically funded by that proposal, but also indirectly in terms of creating an economic stimulus, priming the pump when you have otherwise a holding back by American businesses from new hiring. But once we get back on track, you have to improve the track.

The jobs that are created through the economic stimulus package, including summer jobs, may be a first step to giving, for example, in that instance kids some discipline and some structure and some educational enrichment, but those are specifically the jobs that we expect are going to build the future economy. Those are steps toward those jobs, those are steps toward investments ultimately in those jobs.

So I would say, generally speaking, the economic stimulus package does have to be distinguished to that extent from the investment package, because it is a way of getting the economy going. Many of the items in the stimulus package are down payments on the investment package, but again, the purpose is slightly different. One is short-term, getting the jobs back, getting the economy going; the other is long term, making the literally investments in our future productivity that we have not been making in this country.

Mr. POMEROY. The stimulus package has direct spending, and then tax incentives as an inducement to the private sector, particularly small business. And coming from North Dakota, I am particularly pleased with the recognition in this administration about the critical role of small business.

Will you assess, please, the types of job creation you see coming out of each component of the stimulus package, direct spending, and then the tax incentives?

Secretary REICH. Congressman, it is a little bit difficult to say. The tax incentives in the stimulus package, as you know, are retroactive. That is, they are retroactive through 1993. I think until actually December 2nd is in my head, 1993. Don't quote me—1992. Don't hold me to that. But I think that we announced very early on that they were retroactive.

The kinds of jobs that are created through tax incentives are, generally speaking, the same kinds of jobs that are created through direct spending, but with this one difference: Tax incentives are designed to create machinery and equipment purchases, which in turn generate job growth, job growth associated with that machinery and those equipment.

The other kinds of direct spending in the stimulus package, those kinds of spendings are associated with direct creation of jobs, whether they are again environmental remediation, filling the holes in the streets, making the infrastructure better, providing

summer jobs for youth, they tend not to be jobs that are factory related. They tend not to be jobs that are directly connected to some equipment or machinery.

Mr. POMEROY. The final issues, actually more of a comment from my prior professional experience than anything that you need to comment on. I was previously an insurance commissioner, and noted that the Labor Department in its enforcement of the ERISA Act, particularly multiple-employee welfare arrangements providing self-insured health insurance to groups of small employers, was insufficient. There would be con artists coming in and purporting to administer these multiple employee welfare arrangements and inevitably paying claims on a cash flow basis until it caught up with them, and people were left without coverage.

I would commend on this dimension of your far-flung responsibilities, and I think that more can and must be done to protect employees as to the security of their health benefits in these arrangements.

Thank you.

Secretary REICH. Thank you.

Chairman SABO. Ms. Slaughter?

Ms. SLAUGHTER. Thank you, Mr. Chairman.

Good afternoon, Mr. Secretary, welcome. I wanted to talk for just a minute about NAFTA. I live in upstate New York where we obviously have a very keen interest in the United States-Canadian Free Trade Agreement, and I serve also on an inter-parliamentary group with Canadians. And 2 years ago they were saying that they were not particularly keen on the NAFTA agreement with Mexico. And, of course, we know now what has happened to Prime Minister Mulroney, and since they have not yet ratified that treaty, if they were able to get that through the Canadian parliament, I would be very much surprised.

But I wondered, if they are not able to get that through, what impact do you think would it have on an agreement between the United States and Mexico?

Secretary REICH. I can't answer that, Congresswoman. All expectations, all of the indications we have are that NAFTA will be approved in Canada.

As you know, the President is supportive of NAFTA, but with the caveat that there are side agreements on import surges and on working conditions in Mexico, and also on the environment. But again, our expectation is that Canada will be approving NAFTA.

Ms. SLAUGHTER. If they do not, though, do you think that that has an effect on us, that might be strong enough to kill the agreement?

Secretary REICH. Again, I just simply can't say.

Ms. SLAUGHTER. I wanted to mention the side agreements that you brought up. Are those environmental as well as labor laws?

Secretary REICH. Yes. One of the side agreements concerns environmental conditions.

Ms. SLAUGHTER. How about the child labor? That was of great concern to numbers of us on the fast-track legislation, that the Mexicans were using child labor.

Secretary REICH. One of the three of those side agreements concerns labor conditions, labor conditions south of the border. The

Labor Department is at this moment developing a set of recommendations for the President on what those labor condition minimal standards ought to be, what the President ought to be asking for from Mexico, and we will be within the next few weeks making that recommendation.

Ms. SLAUGHTER. I was distressed, as I know everybody else was, to learn that the Mexican Government had set up a corporation chartered in Delaware called Amerimex, and they had provided some millions of dollars to start already buying up small American companies. And as I understand it, they are now pulled out of that. But do you consider that at all a breach of faith in what we were trying to do and say, Don't come up and raid our jobs?

Secretary REICH. I don't think so. Let me step back from this and put this in the context of all of the discussion we have had so far. If we in America—I think that we can compete with the rest of the world on the basis of wage rates, or if they think that we can somehow put walls around America to preserve jobs that are being had by people around the rest of the world at a small fraction of our wages, we are just simply fooling ourselves. That is not the way the world is going.

Mexico is not the problem. We are competing with Southeast Asia, we are competing with southern Asia, and even the meaning of the term "we" is becoming problematic, because it is our companies who are going to many of these places.

I have to relate to you a story, a true story. Recently I had a meeting with a businessman in my home city of Boston and he was just about to build a new plant, a high-tech sensor plant that would have a lot of jobs, a lot of high-skilled jobs associated with it. And he said to me that he faced a choice. Either he could go to Singapore where he said there were low wages and relatively low skills, or he could go to the former West Germany, where there were high wages, much higher than the United States, and very high skills, or he could stay in New England where he said there were high wages and relatively low skills. He decided to go to West Germany, or the former West Germany. You see, that is what worries me.

Ms. SLAUGHTER. It is not wages then.

Secretary REICH. We cannot compete on the basis of wages. If we try in this world to compete on the basis of wages, we are simply competing with the lowest common denominator.

Now, there will be some dislocation. We have to make sure that all the trade that we undertake is done fairly; we have to make sure that international investment is undertaken fairly. But over the longer term, we have to compete on the basis of education and skills, or we simply are not going to be able to maintain high living standards and take advantage of all of the benefits of a global market.

Ms. SLAUGHTER. That is one of the reasons I think most of us are so happy that the new administration is paying attention to skills and education.

One other point I wanted to bring up to you too is the retiree health coverage. Numbers of major companies are defaulting on their agreements with long-time employees and retirees, which could be a devastating issue in this country.

Is there any way that we can address that, either through national health care or some kind of an assessment on those companies? What do we do about them reneging on those agreements?

Secretary REICH. I don't know, Congresswoman, honestly. Those agreements are private agreements, they are contractual agreements between those companies and those individuals. Some companies claim that they have reserved the right in those contracts to abrogate those agreements. Some of the people who are being affected are suing, and the courts, the courts are now actively engaged in making those determinations.

It is part of a larger trend through which companies are reducing their health benefits and also their retirement benefits, not only to people who are retirees, but also to people who are coming on. Or, perhaps even worse, companies are saying, Oh, yes, you get all kinds of retirement benefits and then they are counting on the government, the Pension Benefit Guarantee Corporation to bail them out should the company get in trouble.

We have got to do something about this. A lot of Americans are going to be in trouble if this continues.

Ms. SLAUGHTER. It is troublesome that the numbers of companies that are reneging are the same corporations that basically live on Federal contracts, and I wonder if any thought has been given to say that your contract hinges on whether or not you keep your contracts with your workers?

Secretary REICH. Not to my knowledge, but I will look into it, and I would like to get back to you and maybe work with you and any other Members of Congress on the broad problem.

Ms. SLAUGHTER. I would appreciate that very much.

Thank you.

Chairman SABO. Mr. Kildee?

Mr. KILDEE. Just one follow up question to Ms. Slaughter's question. On the side agreements for NAFTA, will they address labor law in Mexico or actual labor conditions? Will they address environmental law in Mexico or environmental conditions? How will we monitor those side agreements?

Secretary REICH. Congressman, those questions are being addressed right now, even today. I was a party to a meeting on those, all the questions you just raised in preparation for advising the President, making a recommendation to the President. There are a number of ideas.

As you may know, Mexican labor standards are quite high. They don't seem to be enforcing them—

Mr. KILDEE. Labor law, right. It is like the Soviet constitution which guaranteed freedom of religion, when, in fact, we didn't have much freedom of religion over there. The law and actuality are two different things very often.

Secretary REICH. Well, even here some people would say that with regard to laws and labor health and safety; they are observed in some cases more in the breach.

Mr. KILDEE. But there is a big difference, I would think.

Secretary REICH. Oh, I am sure there is. Obviously, there is clearly a difference and discussions are being had on that very subject right now.

Mr. KILDEE. Mr. Secretary, I would really encourage you—I know you are deeply interested in this too—that we go to beyond just what the labor law may be or what the environmental law may be, and look at really labor conditions and environmental conditions.

The big question is, though, with these side agreements, how do we monitor, because we really can't directly enforce Mexican law. That is a sovereign country. So I think we have to first of all look at labor conditions, environmental conditions, and then some system of monitoring the actual conditions in both those areas.

Secretary REICH. Yes. And we are at this moment trying to formulate a set of recommendations for the President on that very subject.

Mr. KILDEE. Thank you, Mr. Secretary.

Chairman SABO. Anyone else have any additional questions?

Thank you very much. We appreciate having you here.

Secretary REICH. Thank you, Mr. Chairman.

[Whereupon, at 3:50 p.m., the committee was adjourned.]

[Additional material submitted for the record follows.]

**QUESTIONS FROM THE HOUSE BUDGET COMMITTEE
CONGRESSMAN SABO
Department of Veterans Affairs FY 1994 BUDGET**

Management of VA Hospitals

Question: Mr. Secretary, the President's economic plan includes savings of \$100 million in 1994, \$400 million in 1997, and \$1.5 billion over five years from improved management of veterans' hospitals. What specific reforms will you implement to achieve this level of savings?

Answer: VHA has developed a patient-based and policy driven Resource Planning and Management (RPM) system. RPM is a prospective capitation system linking resources with workload. Beginning with the FY 1994 budget, VHA will move toward the implementation of this prospective payment system. Although VHA cannot specify a dollar level for savings prospectively at this point in implementing the new system, it is expected that there will be pay-offs in efficiencies and quality of care through implementation of RPM. The focus on workloads and costs in a prospective way and a review of unit cost outlier facilities will present VHA with the opportunities for greater efficiencies.

At this time, it is uncertain how VA's health system will fit into the National Health Plan. Therefore, it is premature to focus upon these reductions until more is known about the plan.

Veterans' Health Care Reform

Question: Mr. Secretary, I understand you are participating in the Task Force on Health Care Reform. Do you anticipate any major changes in the DVA health care system? How do you think the DVA system should mesh with overall health care reform?

Answer: I am very honored to be a member of the President's Task Force on Health Care Reform and am very pleased that VA is actively participating. I favor a situation where veterans can choose to receive treatment in the VA system using whatever resources they have available including their own funds, insurance, and any resources available to all citizens by way of vouchers. Many proposals are being actively considered by the Task Force. However, it is not possible to discuss the status of such proposals since no decisions have been made at this time.

Question: Regardless of overall health care reform, do you advocate changes in the current VA health care system?

Answer: As stated in my confirmation hearings, I support eligibility for VA care that would continue appropriated funding for care of service-connected and low income veterans, that would improve eligibility rules, and that would allow nonservice-connected and low income veterans to choose VA as the source of their care using their own funds and other resources such as health insurance. I anticipate that any such changes would be in conjunction with national health reform.

Question: Do you support expanded eligibility for health care benefits, and, if so, what particular plans are you considering?

Answer: The Department has developed a number of alternatives for changes to improve eligibility for VA health care benefits. These alternatives vary by the types of services that might be included, the characteristics of veterans who might use them, and the type of financing arrangements. Selection from among the alternatives will be taken in conjunction with the plan resulting from the White House Task Force on Health Reform.

Question: Do you have an estimate of what it would cost to provide the entire continuum of care, including long-term care, to veterans?

Answer: As noted above, the Department has developed several alternatives that vary in the range of services and number of veterans treated, which are the major factors in estimating costs. The cost estimates for the alternatives, then, depend on the way services are defined. For example, is long term care defined to be both institutional-based and non-institutional-

based? Another variable is the degree to which certain veterans may be asked to share in the costs of care. Finally, an important factor is the degree to which veterans using long term care services also need acute inpatient and outpatient care, which our projections indicate would be significant.

Homeless and Mental Health Initiatives

Question: Mr. Secretary, are there any additional funds targeted to homeless and mentally ill veterans? What types of programs are now in place to serve these veterans and what further plans do you have to address these issues?

Answer: VA is one of a few federal agencies that provides substantial hands-on assistance directly to homeless persons. VA's two major homeless-specific programs constitute the largest integrated network of homeless assistance programs in the country. In addition to specific homeless programs VA's regular or mainstream programs assist hundreds of thousands of homeless and at-risk veterans. To increase this assistance, VA has initiated outreach efforts to connect more homeless veterans to both mainstream and homeless-specific VA programs and benefits.

VA's FY 1994 budget request identifies \$5 million to expand the Homeless Chronically Mentally Ill (HCMI) Veterans Program. An additional \$2.37 million is identified in the budget request to cover routine inflation and payroll costs associated with VA's Homeless Veterans Treatment Programs. The following VA programs and services are available for homeless veterans.

The Homeless Chronically Mentally Ill (HCMI) Veterans Program targets homeless veterans with psychiatric difficulties. HCMI programs conduct outreach and provide psychiatric and medical assessment and treatment, case management and community-based residential rehabilitation. First established in 1987, 45 HCMI sites are operating in 26 states and the District of Columbia. More than 10,000 veterans have been placed in the program's 200 contracted community-based treatment facilities.

The Domiciliary Care for Homeless Veterans (DCHV) Program provides medical care and rehabilitation in a residential setting on VA medical center grounds. Programs operating at 27 VA medical centers conduct outreach and referral; admission screening and assessment; medical/psychiatric evaluation; treatment, vocational counseling and rehabilitation; and post-discharge community support. Some 12,000 veterans have been served since 1987.

Veterans Benefits Administration Regional Offices at 58 locations have designated staff who serve as coordinators and points of contacts for homeless veterans. They visit shelters and work with community homeless groups. The Homeless Eligibility Clarification Act enables eligible veterans without a fixed address to receive VA benefits checks at these regional offices.

Readjustment Counseling Service's Vet Centers have homeless coordinators who provide outreach, psychological counseling, medical assessments, supportive social services and referrals to other VA and community programs. In 1992, some 147,390 veterans made 718,329 visits to VA's 196 Vet Centers, and roughly ten percent were homeless.

Drop-In Centers provide homeless veterans who sleep in shelters or on the streets at night with safe, day-time environments. The centers offer therapeutic activities and programs to improve daily living skills, meals, and a place to shower and wash clothes.

Compensated Work-Therapy/Therapeutic Residence Program provides structured and supervised therapeutic housing for at-risk and homeless veterans who are suffering from substance abuse problems or mental illness. VA contracts with private industry and the public sector for work to be done by these veterans. The program operates at 34 sites, two specifically for homeless veterans.

HUD-VA Supported Housing Program, a joint pilot initiative, provides permanent housing and ongoing treatment services to harder-to-serve homeless

mentally ill veterans and those suffering from substance abuse disorders. HUD's Section 8 Voucher Program has dedicated 600 vouchers for homeless chronically mentally ill veterans, and VA provides outreach, clinical care and case management services. This pilot effort was activated at 19 VA medical centers, and HUD has pledged an additional 750 vouchers to expand the effort.

Joint Social Security Administration (SSA)/VA Pilot Project provides benefits and services to homeless mentally ill veterans. SSA and VA staff locate homeless veterans and assist them in obtaining social security and VA benefits. Three pilot sites have been established in Manhattan, Brooklyn and Dallas.

Comprehensive Homeless Centers place all of VA's homeless programs in a given area into a single organizational framework to promote integration within VA and coordination with non-VA homeless assistance providers. These centers are at the Dallas and Brooklyn VA Medical Centers.

Stand Downs are 2-3 day safe havens for homeless veterans, providing them with a temporary place of safety and security where they can obtain food, shelter, clothing and a range of other assistance and support, including VA-provided health care, benefits certification, ID cards and linkage with other programs. VA mainstream and homeless assistance program staff have been participants in each of the Stand Downs for homeless veterans that local coalitions have sponsored in various cities.

GENERAL VA BENEFITS AND SERVICES TO ASSIST HOMELESS VETERANS

* VA administers several categories of compensation and pension programs: disability compensation, dependency and indemnity compensation, death compensation, death pension, and disability pension. Vocational rehabilitation and counseling assist veterans with service-connected disabilities achieve independence in daily living and, to the extent possible, become employable and maintain employment.

* In the Fiduciary or Guardianship Program, the benefits of veterans determined to be incapable of managing their funds are managed by a fiduciary.

* In FY 1993 36 VA domiciliaries will provide treatment to eligible ambulatory veterans disabled by medical or psychiatric disorders, injury or age who do not need hospitalization or nursing home care.

* In FY 1993 inpatient psychiatric services will be provided in 18,231 psychiatric beds. Outpatient services are offered in mental health clinics, day-treatment centers, day hospital programs, and alcohol- and drug-dependence treatment programs. VA also supports contract care in community-based facilities for veterans with substance-abuse disorders.

* Community Residential Care in private homes is provided to eligible veterans unable to live independently.

* Veterans receive social work services for discharge planning from VA inpatient care and are assisted with health maintenance planning. Each VA medical center has a staff member who coordinates activities for homeless veterans and works with community groups that assist the homeless.

Housing Loan Fees

Question: Mr. Secretary, the economic plan proposes to increase veterans' housing loan origination fees to a maximum of 2 percent. Can these fees be amortized over the life of the loan? How do the proposed fees compare with other Federal loan fees? How would they compare with a private loan origination fee?

Answer: The funding fee on a VA guaranteed home loan may be financed and

amortized over the life of the loan. This would still be the case if the fee is increased to 2 percent (with reductions for downpayments) as required in the President's economic plan. The proposed 2 percent funding fee would still be lower than similar fees required for other Federal loans and for conventional loans.

The mortgage insurance premium (MIP) required for FHA loans is 3.0% at the time the loan is made and can be financed as part of the loan. Thereafter, .50% is added to the monthly mortgage payment for at least the first seven years of the loan. For conventional loans private mortgage insurance (PMI) is required for loans that have less than a 20% downpayment. For loans with 5 percent down, the closest comparison to the no downpayment VA loan, the PMI fee is 1.00%, which may not be financed, with an annual fee of approximately .34% for the first 10 years of the loan and a lesser annual fee required for the remaining years of the loan. (There are minimal differences in the annual fees charged by the various providers of PMI.)

Question: What is the financial status of the housing loan programs?

Answer: A brief identification of the financial status of the VA housing program is difficult because of recent changes in the accounting of Federal credit programs. Beginning in fiscal year 1992, the Federal Credit Reform Act of 1990 initiated a system whereby the net present value of the government's future costs of making or guaranteeing loans are calculated as an upfront subsidy. Therefore, for all Federal credit activity beginning in FY 1992 and thereafter, this act allows "such sums as may be necessary" to be appropriated to fund the net present value of the cost or subsidy associated with these loans over their life span. All loans guaranteed or made prior to this period will remain in their respective Liquidating Account which continues to operate on a cash basis and are funded by such "sums as may be necessary" on a fiscal year basis.

The chart below shows the total value of loans outstanding in the Liquidating Account, amount of guaranteed and direct loans made and the total budgetary requirements necessary to finance the potential costs of these loans. For example, in 1994, the total value of loans includes \$118.1 billion in loans outstanding from loans made or guaranteed prior to 1992 (Liquidating Account), \$1.7 billion from direct loans established in 1994 and \$19.6 billion from new guarantees issued. The budgetary requirement needed in 1994 includes \$163.3 million for the expenses associated with FY 1994 Liquidating Account activity, \$616.7 million to cover the future cost (over 30 years) of all loans guaranteed in 1994 and \$2.9 million to cover the future cost of all direct loans made in 1994.

Value of Loans and Budget Requirements
(dollars in thousands)

	SOY (Liq.)	Loans	Loans	Requirement
Outstanding Guaranteed Direct Budgetary				
1992	\$161,296,660	\$24,575,609	\$1,305,351	\$815,958
1993	\$137,605,017	\$21,589,823	\$1,614,164	\$789,154
1994	\$118,089,904	\$19,608,186	\$1,682,906	\$786,344
1995	\$102,172,915	\$19,606,277	\$1,612,934	\$717,536
1996	\$ 89,050,976	\$19,594,254	\$1,532,025	\$658,137
1997	\$78,114,013	\$19,542,443	\$1,476,411	\$631,081
1998	\$ 68,875,053	\$19,508,821	\$1,438,260	\$610,253

Question: Do you think that the proposed savings will cover any losses in the program?

Answer: If enacted, the proposal to raise the funding fee requirement would increase offsetting collections, thus reducing the subsidy requirements by approximately \$152 million per year beginning in 1994. The five-year savings are estimated to exceed \$760 million.

Claims Processing

Question:What is the DVA record on processing veteran's claims? Is there a significant backlog, and, if so, what do you recommend to remedy the situation?

Answer:

Claims Processing Data: FY 1991 FY 1992 FY 1993 FY 1994

* Ave. Number of Days Between Receipt and Completion of a Claim

Orig. Compensation	163.9	164.2	175.0	200.0
Orig. Pension Claim	106.8	114.4	119.0	125.0
Reopened Claim	99.4	105.1	121.0	140.0

* Compensation and Pension Workload

Workload Received	3,385,198	3,347,349	4,272,512	4,461,580
Workload Accompl'd	3,860,343	3,259,021	3,626,723	4,243,579
Workload Pending at End of Fiscal Year	391,746	538,302	783,844	987,923

We anticipate that our pending workload will approach one million cases by the end of fiscal year 1994. We are developing a number of initiatives to help us with this problem. Among them will be a request for legislation which would eliminate the statutory requirement that each VA pension recipient submit an Eligibility Verification Report annually. Enactment of this legislation would allow us, with no detrimental effect on the pension program, to redirect 244 existing personnel towards pending claims.

The basic remedy for the backlog problem, however, is additional staffing, especially in our rating (disability evaluation) activities. Our budget for 1994 includes 242 FTE which were reallocated from other VBA programs. This estimate reflects a decrease of 83 FTE for OBRA, 250 for rating specialist positions and 75 FTE which are available to us on a reimbursable basis, as required, to support the Department of Defense Job Training program. We plan to promote experienced claims examiners into these positions and then hire new employees to fill in behind them. It will take approximately two years of training to make the new rating specialists and new claims examiners fully proficient in all aspects of their highly technical jobs. During that two-year period, regional offices will use these employees as efficiently as possible, training them intensely in specialized areas (as opposed to exposing them immediately to the whole spectrum of compensation and pension claims) and then directing pertinent sections of the workload to them. We expect the number of incoming claims to continue to increase through 1994 due to military downsizing and due to special projects mandated by the "Omnibus Reconciliation Act of 1990." The claims backlog should begin to decrease in 1995, however, as the incoming workload decreases and the experience level of our employees rises.

Major Construction Cuts

Question:The economic plan assumes outlay savings of \$134 million in 1997 and \$282 million over four years from improved management of major construction. What kind of reforms are you contemplating? Are there particular construction projects slated for elimination? If so, which ones?

Answer: VA is an active participant on the President's health reform task force. We believe the VA health care system will be an important component of the President's health plan for the nation. We envision reform of the rules governing veterans' access to VA health care so that VA will be better able to provide a full continuum of health services in the most appropriate settings. As VA health programs evolve we envision a greater emphasis on primary, ambulatory, long-term, and home-based services. Although, no particular construction projects are slated for cancellation, the projection anticipates changing future mission requirements as well as improved efficiency in the construction process.

Montgomery GI Bill Education

Question: The economic plan proposes to increase military personnel's contribution toward their education because benefits have increased by 33%, whereas contributions deducted from their pay have not. This is estimated to save \$98 million in 1997 and \$339 million over four years. How much will this proposal increase military personnel's contribution each month? How much educational aid will a veteran receive in return?

Answer: The military personnel's contribution will increase from the current \$1,200 to \$1,644.00 if the proposal to maintain the 9:1 ratio is adopted. This will increase the pay reduction by \$37.00 per month for 12 months.

The basic Montgomery GI Bill - Active Duty benefit, originally \$10,800, will increase to \$14,803.20 for Fiscal Year 1994..

Note: The 1994 President's Budget identifies 1997 savings of \$93 million and \$330 million over four years.

Across-the-board Pay and Administrative Reductions

Question: There are significant administrative savings and personnel reductions in the budget plan. What impact will these have on your labor-intensive department?

Answer: VA is supportive of the Administration's efforts to trim the size of government operations. As a result, we will be making a reduction of approximately 521 FTE in activities other than Medical Care and \$28.7 million in administrative cost reductions in 1994.

We made the very difficult decision of providing a modest increase in Veterans Benefits Administration's and the National Cemetery System's staffing level while absorbing the FTE in VA research and in our administrative support functions. The options presented to us were not easy. In the final analysis, we decided to target our limited FTE resources toward those areas which concentrate on providing direct service to veterans.

Although research has taken a reduction, we are committed to this program and recognize it as an important element in the provision of quality health care. The reductions in this program will affect research technicians who do not provide direct patient care--physicians will not be affected.

In VBA, we were able to increase employment by 92 additional FTE for 1994 to address the adjudication backlog which continues to increase at an unacceptable rate. We were able to maintain employment by delaying phase III of the modernization program until October 1st in 1995. In addition to that, the Department of Defense made \$75 million available to reimburse VA in administering the new Jobs Training Program authorized by P.L. 102-484.

Technological improvements will be delayed which may hinder our productivity initiatives in the future. These improvements include the modernization effort in VBA as mentioned above and delaying the implementation of the Financial Management System.

As a new administration, we are undertaking a review of all administrative activities in VA to find more efficient methods of managing the Department. We are committed to meeting the President's challenges of improving services to our customers, the Nation's veterans, with a more streamlined department.

Veterans' Medical and Prosthetic Research

Question: How many research grants will be funded in 1994, and how does that number compare to last year? What level of funding would be required to fully account for inflation over 1993? Will important research projects be jeopardized by the 1994 funding request?

Answer: The FY 1993 number of programs funded for Medical and Prosthetic Research is 2092. At the start of FY 1994 there will be 1629 programs. During FY 1994, 238 ongoing programs due for competitive renewal will not be funded and no new programs will be funded. Thus the programs funded at the end of FY 1994 will be 1391 - a loss of 701 programs from FY 1993 level for all three R&D Services.

The FY 1994 research appropriation would need to be increased from the FY 1993 level (\$232,000,000) to \$237,467,000 to be equivalent in inflation-adjusted dollars to the FY 1993 appropriation. This figure is based on OMB inflation adjustment estimates.

Physician Pay

Question: What special pay provisions affect DVA physicians? What is the highest pay available to a physician, including bonuses and other incentives geared to medical specialties and other concerns?

Answer: The majority of VA physicians are eligible for special pay. This includes the non-discretionary categories of tenure, full-time, and board certification special pay. VA physicians are also eligible for special pay in the discretionary categories of geographic location pay, scarce specialty pay and responsibility pay (for those physicians occupying administrative positions).

Preliminary information indicates that the special pay increases resulting from the passage of Public Law 102-40 appear to have significantly enhanced VA's ability to recruit and retain highly qualified physicians. Improvements in VA's recruitment situation will be carefully examined as part of the next Quadrennial report which will be submitted in 1994. These increases have also enabled VA to draw distinctions in the salaries paid to physicians in different specialties and geographic locations. Prior to the implementation of Public Law 102-40, special pay had not increased since 1980. In addition, special pay under the previous law was limited to \$22,500, unless an additional \$5,000 in geographic location pay was authorized. Thus, the majority of VA physicians were paid at the maximum special pay rate and were making essentially the same salary, regardless of their clinical specialty. The new special pay provisions have been beneficial not only in increasing special pay rates, but also in providing the flexibility to offer salaries which are responsive to local and/or national recruitment and retention problems.

Salaries paid to VA physicians have been established at levels necessary to compete with non-Federal physician pay. For example, anesthesiologists and radiologists have generally been paid the highest salaries, normally in the \$150,000 range. This salary level has enabled VA to become more competitive in two clinical specialties where historic recruitment and retention problems have existed, and to stabilize or reduce contract costs in these areas. While salaries for other clinical specialists have generally been lower, such salaries are much more competitive than those offered under the previous legislation and have significantly enhanced VA's recruitment and retention capability.



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